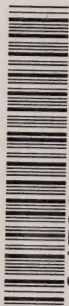


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Combine in the Manufacture, Distribution
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MATCHES



Investigation into an Alleged Combine in the Manufacture,
Distribution and Sale of Matches



REPORT OF COMMISSIONER, COMBINES INVESTIGATION ACT

DEPARTMENT OF JUSTICE

OTTAWA, DECEMBER 27, 1949

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MATCHES



Investigation into an Alleged Combine in the Manufacture,
Distribution and Sale of Matches



REPORT OF COMMISSIONER, COMBINES INVESTIGATION ACT

DEPARTMENT OF JUSTICE

OTTAWA, DECEMBER 27, 1949



MATCHES



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Information has been obtained from the following sources:
Bureau of Statistics and the Department of the Interior

CONTENTS

| | Page |
|---|------|
| I. THE MATCH INDUSTRY | 7 |
| 1. Development of the Industry outside Canada | 7 |
| 2. Development of the Industry in Canada | 8 |
| 3. Canadian Imposts on Matches | 11 |
| II. MERGER OF COMPETING MATCH BUSINESSES IN EDDY MATCH COMPANY LIMITED IN 1927 | 14 |
| III. ACQUISITION OF AURORA MATCH CORPORATION IN 1928 AND DIS- APPEARANCE OF COLUMBIA MATCH IN 1932 | 21 |
| 1. Aurora Match Corporation, Limited | 21 |
| 2. Competition of Columbia Match Company of Canada Limited | 22 |
| 3. Bankruptcy of Columbia Match | 28 |
| IV. ORGANIZATION OF COMMONWEALTH MATCH BY BRYANT & MAY AND DIAMOND MATCH TO OPERATE COLUMBIA MATCH FACTORY | 30 |
| 1. Financial Control of Commonwealth Match | 30 |
| 2. Concealment of Relations between Commonwealth Match and Eddy Match | 34 |
| V. ENTRY OF CANADA MATCH AND SUBSEQUENT ACQUISITION BY EDDY MATCH IN 1936 | 38 |
| 1. Western Canada | 38 |
| 2. Ontario and Quebec | 42 |
| 3. Maritime Provinces | 46 |
| 4. Negotiations for Purchase of Canada Match Company | 47 |
| 5. Acquisition of Canada Match | 49 |
| VI. ENTRY OF FEDERAL MATCH AND SUBSEQUENT ACQUISITION BY EDDY MATCH IN 1940 | 52 |
| 1. Surveillance of Federal's Activities by Eddy Match | 52 |
| 2. Active Competition of Federal Match with Eddy Group | 53 |
| 3. Introduction of One-cent Boxes by Federal Match | 57 |
| 4. Continuance of Competition between Federal Match and Eddy Group | 59 |
| 5. Acquisition of Federal Match | 66 |
| 6. Operation of Federal as a Subsidiary of Eddy Match | 67 |
| VII. ENTRY OF WESTERN MATCH COMPANY AND SUBSEQUENT AC- QUISITION BY EDDY MATCH IN 1949 | 69 |
| 1. Importation of Matches into Western Canada | 69 |
| 2. Early Interest of Eddy Match in a Plant in Western Canada | 70 |
| 3. Action by Eddy Match to Forestall Possible Competition from Western Match | 71 |
| 4. Increased Shipments to Western Canada followed by Establishment of Eddy Factory in British Columbia | 72 |
| 5. Conditions faced by Western Match and Ultimate Acquisition by Eddy Match | 75 |
| VIII. RESALE PRICE MAINTENANCE | 80 |
| 1. Adoption of Resale Price Plan by Three Match Manufacturers | 82 |
| 2. Revision by Eddy Match of Arrangements in Maritime Provinces | 83 |
| 3. Establishment of Resale Price Plan in Western Canada | 85 |
| 4. Methods of Dealing with Non-observance of Resale Prices | 91 |
| 5. Maintenance of Retail Prices of Matches | 94 |
| IX. DEVELOPMENT OF MANUFACTURE OF BOOK MATCHES | 99 |
| X. PAYMENTS TO DIAMOND AND OTHER COMPANIES FOR SERVICES AND SUPPLIES | 102 |
| 1. Uniform Chemical Products Incorporated | 102 |
| 2. Diamond Match Company | 104 |
| 3. Alliance Sales Corporation — Patents | 105 |
| XI. PRICES OF MATCHES AND FINANCIAL RESULTS UNDER MONOPOLY CONTROL | 106 |
| 1. Prices of Matches | 106 |
| 2. Regional Differences in the Prices of Eddy Matches | 108 |
| 3. Valuation of Assets Acquired by Eddy Match | 111 |
| 4. Commonwealth Match Company Limited | 118 |
| 5. Acquisition of Commonwealth Match by Valcourt | 118 |
| 6. Canada Match Company Limited | 120 |
| 7. Federal Match Limited | 120 |
| XII. CONCLUSION | 124 |

APPENDICES

| | Page |
|--|------|
| I. Canada Match Co. Ltd. Balance Sheet as at January 31, 1936 | 130 |
| II. Canada Match Co. Ltd. Balance Sheet as at December 31, 1947 | 131 |
| III. Federal Match Limited Balance Sheet as at May 10, 1940 | 132 |
| IV. Federal Match Limited Balance Sheet as at December 31, 1947 | 133 |
| V. Commonwealth Match Co. Ltd. Balance Sheet as at December 31, 1947 | 134 |

TABLES (*Numbered*)

| | |
|---|-----|
| 1. Principal Statistics of the Match Industry in Canada 1900-1948 | 10 |
| 2. Domestic Sales of Wooden Matches by Eddy Match and Associated Companies, 1940-1947 | 69 |
| 3. Total Canadian Production and Imports of Wooden Matches, 1941-1948 | 69 |
| 4. Relative Importance of Domestic Sales of Book Matches, 1938-1946 | 100 |
| 5. Production of Book and Wooden Matches, Canada, 1946-1948 | 101 |
| 6. Gross Profit on Sales of Canadian Supplies and Materials by Uniform Chemical Products Inc. to Eddy Match and Associated Companies, 1939, 1940, 1944 and 1946 | 102 |
| 7. Price per Case of Eddy Household Matches -- Ontario and Quebec, 1928-1948 | 107 |
| 8. Average Factory Net per Case by Areas, Eddy Match Company Limited, 1934-1941, All Brands and Sizes | 107 |
| 9. Prices of Eddy Matches, Eastern and Western Canada, as per Price List of January 3, 1928 | 109 |
| 10. Direct Sales Expense and Freights per Case, by Areas, Eddy Match Company Limited, 1939 | 110 |
| 11. Sales, Net Profit and Dividend Payments, Eddy Match Company Limited, 1928-1947 | 114 |
| 12. Earnings of Eddy Match Company Limited as a Percentage of Sales, 1942-1946 | 115 |
| 13. Assets of Eddy Match Company Limited as at January 1, 1928, December 31, 1928 and December 31, 1947 | 116 |
| 14. Liabilities of Eddy Match Company Limited as at January 1, 1928, December 31, 1928 and December 31, 1947 | 117 |
| 15. Sales, Net Profit and Dividend and Bond Interest Payments, Commonwealth Match Co. Ltd., 1933-1947 | 119 |
| 16. Sales, Net Profit, Dividend Payments and Value of Capital and Surplus, Canada Match Co. Ltd., 1932-1947 | 122 |
| 17. Sales, Net Profit, Dividend Payments and Value of Capital and Surplus, Federal Match Limited, 1940-1947 | 123 |

COMBINES INVESTIGATION COMMISSION

DEPARTMENT OF JUSTICE

OTTAWA

December 27, 1949.

Honourable Stuart S. Garson, K.C.,
Minister of Justice,
Ottawa

Sir :

I have the honour to submit to you the following report of an investigation into an alleged combine in the manufacture, distribution and sale of matches in Canada.

The monopoly position secured by Eddy Match Company, Limited, and the activities of this company which have been directed to maintaining substantial control of the wooden match industry have been the principal matters to which attention has been given in this inquiry. The evidence obtained, which is extensively quoted and referred to in this report, consists almost entirely of documents from the files of the Eddy Match Company Limited and associated companies, which were returned after being copied, and of testimony given on behalf of the companies during hearings or in written returns. Hearings were held by Mr. A. S. Whiteley, Deputy Commissioner, in Ottawa and Montreal. At the conclusion of the hearings counsel for the Commission prepared at my request a statement reviewing the effect of the evidence. In this statement he alleged that Eddy Match Company, Limited and its subsidiaries, and associated companies have been parties to a combine and that Eddy Match Company, Limited, is a merger, trust or monopoly which has operated to the detriment of the public and therefore constitutes a combine within the meaning of the Combines Investigation Act. The statement of Commission counsel was sent to the Eddy Match Company, Limited and subsidiary companies as notice of the allegations and a date was set for the presentation of replies or further evidence by the companies concerned. The companies while stating that they could not agree with the statement of Commission counsel, declined to make any reply to the allegations. They objected to the jurisdiction of the Commissioner on the principal grounds that they had not had opportunity to cross-examine certain witnesses; that all the evidence before the Commissioner was not made available to them; and that irrelevant evidence had been accepted during the inquiry. Explanations and statements were given by the representatives of Eddy Match Company, Limited and its subsidiary companies during the hearings. When a further opportunity to make representations was declined, on the same grounds, the preparation of the report on the basis of the evidence obtained was undertaken.

Mr. John G. Ahern, K.C., of Montreal, was named by the Minister of Justice to act as Commission counsel and he conducted proceedings during the greater part of the inquiry. I wish to acknowledge here the able services rendered by Mr. Ahern and also by Messrs. J. J. Quinlan and A. G. Powell, members of the staff of the Commission.

Yours faithfully,

F. A. MCGREGOR,
Commissioner,
Combines Investigation Act.

REPORT TO THE MINISTER OF JUSTICE

I. THE MATCH INDUSTRY

1. Development of the Industry outside Canada

The first successful type of friction match appears to have been developed in 1831 when Dr. Charles Sauria of St. Lothair, France, invented the phosphorus friction match. His invention, which he neglected to patent, was quickly taken advantage of and various concerns introduced phosphorus friction matches between 1831 and 1833, particularly manufacturers in Vienna and Darmstadt. In 1832, William Newton of England patented a match featuring a wax taper in place of the wooden splint, which type became popular in England under the name "Vesta". The first friction matches were laboriously hand cut but machines were developed to permit manufacturing on a more extensive scale. Early machines scored the block of wood and sliced off square splints but in 1841 a machine was invented which made round splints by forcing a perforated plate through the block.

It was found that workmen exposed to the vapours of white phosphorus used in the manufacture of matches were subject to phosphorus poisoning and efforts were made to discover a non-poisonous phosphorus. By 1850 matches were being made with a non-poisonous or amorphous red phosphorus, but this did not prove to be an entirely satisfactory substitute. White phosphorus continued to be used, although Denmark and Sweden prohibited its use in making matches before 1880. In 1898, sesqui sulphide of phosphorus was successfully adapted to match manufacture and within a few years steps were taken to establish an international convention to prohibit white phosphorus matches.

The first safety matches, those which could be ignited only by striking on a special surface, were made with red phosphorus in 1852, utilizing an invention by J. E. Lundstrom of Sweden, who tipped his matches with chlorate of potash and put the phosphorus on the striking surface of the box. In 1855 the right to use Lundstrom's patent was acquired by Bryant & May of England, a firm which commenced business as a small London partnership in 1841.

The Diamond Match Company was organized in the United States in 1880 as a merger of substantially all match manufacturing companies then operating in that country. With patents on superior types of machinery used in the manufacture of matches, this company extended its operations into a number of other countries. In 1896 it established the Diamond Match Company of Liverpool, England, whose entire business was sold in 1901 to Bryant & May, Limited in return for a substantial stock interest in the latter company. At the time of the sale an agreement was made that Diamond Match Company would not manufacture or sell matches in the United Kingdom or other parts of the British Empire and that Bryant & May Limited would refrain from manufacturing or selling matches in North America except under certain conditions. The agreement was formally modified in 1911 and cancelled in 1914, but the companies continued to observe the territorial divisions in their businesses. In 1903, Diamond Match Company became the exclusive American agents for Swedish Match Company under conditions whereby the latter agreed not to manufacture matches in the United States except by arrangement with Diamond Match Company. In 1904 the Diamond Match Company was reported to control 85 per cent of the match production of the United States and to have a controlling interest in match factories in Germany, Switzerland, Peru and Chile.

Between 1912 and 1920 a large part of the American owned shares in Bryant & May, Limited were acquired by British shareholders, but Diamond Match

Company continued to hold a minority interest.

During the first World War Ivar Kreuger, of Sweden, acquired control of virtually all of the match manufacturing and distributing companies in Sweden and other Scandinavian countries, and toward the end of 1917 this control was centralized under the Swedish Match Company. The match factories controlled by Swedish companies were located in a number of countries outside Scandinavia, including the United Kingdom. Amalgamation of match companies controlled in the United Kingdom was also effected on a substantial scale in the post-war period and by 1926 most British match plants, other than the subsidiaries of Swedish Match Company, had passed into the ownership or control of Bryant & May, Limited, which had interests in other countries as well. Co-operation between the two international concerns was put on a firm basis in 1927 when there was an amalgamation of Bryant & May, Limited and the most important match enterprises of Swedish Match Company within the British Empire. Excepted from the amalgamation were Swedish Match enterprises in India and other parts of Asia which were closely connected with the working of the Swedish factories. In order to effect the amalgamation a new company, British Match Corporation, Limited, was formed which took over all the ordinary shares of Bryant & May, Limited. As compensation for the assets transferred to the new company, Swedish Match Company received 30 per cent of the share capital of British Match Corporation, Limited and the remaining 70 per cent was divided among the former holders of ordinary shares in Bryant & May, Limited. Diamond Match Company thus became a shareholder in British Match Corporation, Limited, holding about 5 per cent of the ordinary shares.

Some years previously, in 1923, International Match Corporation had been formed in the United States with Swedish Match Company holding the controlling interest. International Match Corporation operated as a holding company of companies engaged in the manufacture and distribution of matches throughout the world and together with its parent company, Swedish Match Company, controlled at one time over 150 match factories in 28 countries. In several of these countries, national match monopolies were secured by making or guaranteeing loans to the respective governments. International Match Corporation was declared bankrupt in the United States following the death of Ivar Kreuger in 1932 and its assets were liquidated. Swedish Match Company, however, continued as one of the world's leading match companies.

In describing briefly the developments which led to the world's three leading match enterprises, Diamond Match Company of the United States, Bryant & May, Limited of Great Britain and Swedish Match Company, having an active interest in the Canadian match industry, it has been necessary to make this brief reference to relationships outside Canada. No attempt is made to outline the full extent of the corporate and other international relationships among leading match producers, of which the activities in Canada formed only one part. Such arrangements appear to have been designed to limit competition in international trade in matches and to maintain the position of the dominant manufacturers in designated markets. At times there have been departures from their cartel arrangements, as in the case of Ivar Kreuger's control of World Match Corporation, Limited in Canada, but such departures were usually followed by new agreements to re-establish their joint arrangements.

2. Development of the Industry in Canada

Manufacture of friction matches in Canada was undertaken by Ezra Butler Eddy in 1851 in a small workshop in Hull, P.Q. which was the forerunner of the large enterprises of the E. B. Eddy Company. The first matches were hand-made and were known as sulphur matches. By 1880 the Eddy business was well established in Hull and upwards of 125 cases of matches were being produced daily. Sulphur, which had an unpleasant odour, was replaced by paraffin in the manufacture of matches and the product was then designated "Parlour" match.

The first match machines are reported to have been installed by the E. B. Eddy Company in 1894, utilizing an invention of one of the firm's millwrights. At the turn of the century there were five match factories in Canada, including the Eddy plant. In 1906 the International Conference at Berne, Switzerland, proposed a treaty which was adopted by Switzerland, Luxembourg, The Netherlands, France, Germany, Austria and Spain, banning the use of white phosphorus in the manufacture of matches. It was to become effective in 1912. Great Britain became a party to the convention in 1908 and in 1911 legislation was introduced in the Canadian Parliament to prohibit the manufacture and importation of white phosphorus matches. The bill was not proceeded with at that session and it was not until 1914 that the White Phosphorus Matches Act was passed in Canada. The process for using the non-poisonous sesqui sulphide of phosphorus, which had been successfully adopted in Europe before the close of the nineteenth century, was found to be unsuited to the atmospheric conditions in North America and the poisonous white phosphorus continued to be used. About 1910, however, the Diamond Match Company developed a new process for using sesqui sulphide of phosphorus and this became available to other match manufacturers, including those in Canada. At this time there was one other match factory in Quebec in addition to the Eddy plant, one at Hampton, New Brunswick, one at Halifax, Nova Scotia, and one other beginning business in the province of Ontario. In 1920, the Dominion Bureau of Statistics recorded the following match manufacturers: the E. B. Eddy Company, Limited, Hull, P.Q. the Dominion Match Company, Limited, Deseronto, Ontario, Les Allumettes de Drummondville, Ltée., Drummondville, P.Q. and the Beacon Match Company, Limited, Deseronto, Ontario. In the following year, 1921, only the Eddy and Dominion match plants were reported in operation throughout the year.

Two new companies began the production of matches in 1922. These were Canadian Match Company, Limited, Pembroke, Ontario, and The Match Company, Limited, Berthierville, P.Q. Canadian Match Company, Limited had been organized in 1921 by Bryant & May, Limited, Maguire, Paterson and Palmer (Canada) Limited, the Diamond Match Company of the United States, and Canadian interests. Subsequently, Maguire, Paterson and Palmer, Limited of Great Britain, parent company of Maguire, Paterson and Palmer (Canada) Limited, was amalgamated with Bryant & May, Limited. The factory of The Match Company, Limited at Berthierville had been established originally by Rockefeller interests for the production of match splints and then converted to the manufacture of matches. In 1923 the name of the company was changed to World Match Corporation, Limited, which was acquired by Ivar Kreuger through International Match Corporation.

By 1923, in addition to the pioneer E. B. Eddy Company, three groups operating on an international scale, Bryant & May, Diamond Match and Swedish Match, had become established in the Canadian market. The first two, Bryant & May and Diamond Match had maintained close relationships over the years and had made their entrance into the Canadian market through Canadian Match Company Limited, which they had jointly organized. Swedish Match Company was party to various arrangements with both Bryant & May and Diamond Match, but the degree of co-operation in various world markets on the part of Swedish Match Company and its associated companies varied considerably from time to time. In 1920, Swedish Match Company and Diamond Match Company had entered into a new agreement whereby Diamond was to be the sole and exclusive agent in the United States for Swedish Match and its European producers. One condition of the agreement was that Swedish Match and its European associates would not establish or acquire any match company in North America. The acquisition of World Match Corporation by International Match Corporation had substantially the same effect as if the former had been acquired directly by Swedish Match. Both Canadian Match and World Match appear to have entered the Canadian market in active competition with each

other and with the E. B. Eddy Company. In varying degrees of intensity this competition persisted until the amalgamation of the three match businesses in one company, as will be described in the next chapter.

Manufacture of matches increased considerably in Canada during the first World War, the number of employees rising from 255 in 1915 to 730 in 1920. There was a falling off in number of employees to 439 in 1921 but the total rose to over 1,000 in 1923, when the new companies were in full operation. Changes which have taken place in the industry in subsequent years are discussed in detail in the following sections of this report. The table below gives, in succinct fashion, an outline of the development of the match industry in Canada during the present century.

TABLE 1. PRINCIPAL STATISTICS OF THE MATCH INDUSTRY IN CANADA, 1900-1948

| Year | No. of Plants | Production Selling Value at Factory (a) \$ | Wooden Matches | | Book Matches | | Wooden Matches | |
|------|---------------|---|------------------|-----------|-------------------------------|----------|----------------|------------|
| | | | Quantity (Cases) | Value \$ | Quantity (Thousands of books) | Value \$ | Imports \$ | Exports \$ |
| 1900 | 5 | 312,665 | | | | | | |
| 1910 | 4 | 349,337 | | | | | | |
| 1920 | 4 | 2,698,125 | | | | | 37,770 | 107,762 |
| 1930 | 3 | 1,645,545 | | | | | 49,661 | 2,529 |
| 1931 | 4 | 2,073,726 | | | | | 34,407 | 4,365 |
| 1932 | 3 | 1,212,019 | | | | | 2,559 | 692 |
| 1933 | 4 | 1,613,367 | | | | | 1,066 | 1,460 |
| 1934 | 4 | 1,605,204 | 489,246(b) | | | | 1,053 | 1,296 |
| 1935 | 4 | 1,516,898 | 488,976(b) | | | | 4,312 | 1,121 |
| 1936 | 5 | 1,491,935 | 502,948(b) | | | | 29,491 | 733 |
| 1937 | 5 | 1,920,241 | 551,507(b) | | | | 24,074 | 644 |
| 1938 | 6 | 1,688,229 | — | | | | 9,378 | 508 |
| 1939 | 7 | 1,838,404 | — | | | | 4,440 | 2,491 |
| 1940 | 7 | 1,842,194 | 554,716 | 1,645,979 | 59,721 | 196,215 | 4,769 | 7,683 |
| 1941 | 7 | 2,168,859 | 514,170 | 1,694,732 | 119,663 | 474,127 | 9,322 | 15,026 |
| 1942 | 8 | 2,478,318 | 622,800 | 1,897,403 | 178,538 | 580,915 | 8,846 | 93,875 |
| 1943 | 8 | 2,420,973 | 591,326 | 1,879,332 | 180,458 | 541,641 | 41,444 | 112,180 |
| 1944 | 8 | 2,619,234 | 582,101 | 1,928,388 | 206,523 | 690,846 | 13,533 | 100,342 |
| 1945 | 7 | 3,105,353 | 666,041 | 2,306,508 | 295,051 | 798,845 | 5,629 | 183,873 |
| 1946 | 9 | 3,440,665 | 716,521 | 2,578,185 | 326,735 | 862,480 | 3,750 | 29,788 |
| 1947 | 10 | 4,027,846 | 787,581 | 3,184,591 | 317,953 | 843,255 | 54 | 85,769 |
| 1948 | 10(c) | 4,160,395 | 673,597 | 3,339,380 | 272,658 | 821,015 | — | 73,729 |

(a) Excise or Sales Taxes not included.

(b) May include some book matches.

(c) This total was made up of 3 plants manufacturing only book matches, 6 plants of the Eddy group and one independent wooden match factory, subsequently acquired by the Eddy Match Company, Limited.

Source : Census of Industry Reports

The manufacture of book matches in Canada was apparently undertaken first by World Match Corporation. Book matches are made with a paperboard splint instead of the conventional wooden splint and are made up in paper folders. Production of book matches remained a relatively small part of total match production in Canada until the demand for matches increased greatly with the outbreak of the second World War.

3. Canadian Imposts on Matches

CUSTOMS DUTIES. There has not been a separate item in the Canadian Customs Tariff applying to imports of matches. Matches of wood have been included in "Manufactures of wood, n.o.p.", item 506 of the Customs Tariff, the rates for which, given below, have been in effect since November 30, 1906 :

| | |
|-----------------------------------|--------------|
| British Preferential Tariff | 17½ per cent |
| Intermediate Tariff | 22½ per cent |
| General Tariff | 25 per cent |

From 1923 to 1932 imports of wooden matches from countries accorded the terms of the Franco-Canadian Convention, 1922, were subject to the Intermediate Tariff rate less 10 per cent. Since January 1, 1936 the effective rate of duty on this item under the Most-Favoured-Nation Tariff has been 20 per cent. Paper matches enter under tariff item 199, "Manufactures of paper, n.o.p.". The schedule of rates for this item, since February 26, 1937 has been :

| | |
|-----------------------------------|--------------|
| British Preferential Tariff | 20 per cent |
| Intermediate Tariff | 32½ per cent |
| General Tariff | 35 per cent |

On January 1, 1936 a rate of 30 per cent became applicable under the United States Trade Agreement, which was reduced to 27½ per cent on January 1, 1939. Under the Geneva Trade Agreement the rates of duty applying to item 199, since January 1, 1948 have been 17½ per cent under the Preferential Tariff and 25 per cent under the Most-Favoured-Nation Tariff. During the second World War imports of all matches from non-Empire countries were subject to the war exchange tax of 10 per cent. Imports of matches have also been subject to the requirements which were introduced during the first World War relating to the collection of excise taxes on matches.

EXCISE TAXES. An excise tax on matches manufactured or imported into Canada was first imposed in 1918, when a tax of one cent for each one hundred matches or fraction thereof was established by amendment to The Special War Revenue Act, 1915. The amendment provided for the sale and importation of matches only in packages and required manufacturers and importers of matches to affix to every package an adhesive or other stamp to the value of the tax. Provision was made in 1922 for a scale of taxes on matches in small packages. The excise taxes on matches since 1918 have been as follows :

Effective May 24, 1922

| | | |
|--------------------------------------|---|------------------|
| Each 100 matches or fraction thereof | — | 1¢ |
| Except — | | |
| 30 to 60 matches per package | — | 1/2¢ per package |
| Less than 30 matches per package | — | 1/4¢ per package |

Effective July 1, 1927

| | | |
|--------------------------------------|---|-------------------|
| Each 100 matches or fraction thereof | — | 3/4¢ |
| Except — | | |
| 30 to 60 matches per package | — | 3/8¢ per package |
| Less than 30 matches per package | — | 3/16¢ per package |

Effective March 22, 1933

| | | |
|--------------------------------------|---|-------------------|
| Each 100 matches or fraction thereof | — | 3/4¢ |
| Except — | | |
| 30 to 60 matches per package | — | 3/8¢ per package |
| 21 to 30 matches per package | — | 3/16¢ per package |
| Less than 21 matches per package | — | 3/20¢ per package |

Effective June 5, 1939⁽¹⁾

| | | |
|--------------------------------------|---|-------------------|
| Each 100 matches or fraction thereof | — | 3/4¢ |
| Except — | | |
| 31 to 50 matches per package | — | 3/8¢ per package |
| 26 to 30 matches per package | — | 9/40¢ per package |
| 21 to 25 matches per package | — | 3/16¢ per package |
| Less than 21 matches per package | — | 3/20¢ per package |

Effective June 25, 1940

| | | |
|--------------------------------------|---|-------------------|
| Each 100 matches or fraction thereof | — | 1¢ |
| Except — | | |
| 31 to 50 matches per package | — | 1/2¢ per package |
| 26 to 30 matches per package | — | 3/10¢ per package |
| 21 to 25 matches per package | — | 1/4¢ per package |
| Less than 21 matches per package | — | 1/5¢ per package |

Effective May 19, 1948

| | | |
|--------------------------------------|---|-------------------|
| Each 100 matches or fraction thereof | — | 1¢ |
| Except — | | |
| 41 to 50 matches per package | — | 1/2¢ per package |
| 31 to 40 matches per package | — | 2/5¢ per package |
| 26 to 30 matches per package | — | 3/10¢ per package |
| 21 to 25 matches per package | — | 1/4¢ per package |
| 16 to 20 matches per package | — | 1/5¢ per package |
| 11 to 15 matches per package | — | 3/20¢ per package |
| 1 to 10 matches per package | — | 1/10¢ per package |

In 1949, the specific rates of excise taxes on matches were replaced by an ad valorem tax of 10 per cent, effective March 23, 1949.

The change to 10 per cent ad valorem tax in March, 1949 made a substantial reduction in the amount of taxes on a case of matches. The prices established by the Eddy Match Company in 1948 for cases of 300's included \$4.32 for excise taxes and 85¢ for sales tax, the latter being computed on the manufacturer's price including excise tax when the specific rates of tax were in effect. The manufacturer's price, excluding taxes, was \$6.33 per case at that time, so that the new tax of 10 per cent ad valorem, on that basis, would amount to 63¢ per case or a reduction of \$3.69. In addition there would be a reduction in sales tax which would be computed on a smaller amount. ⁽²⁾

The change from the specific excise tax to the ad valorem tax has had another important effect. When the specific rates of excise taxes applied, prior to the 1949 change, the importer had to meet not only the amount of the tax but also the cost of affixing stamps in the manner required. The law required that stamps to the value of the tax be affixed to the packages while they were in the custody of the customs officer. The importer had therefore to meet the cost of opening the cases and stamping the boxes. As there are 144 boxes in a case of household matches and a considerably larger number in a case of pocket matches, the cost of affixing excise stamps was considerable. Under an ad valorem tax this cost is eliminated.

⁽¹⁾ The rate of 3/8¢ per package of 50 matches became effective on June 3, 1939 and applied at first to packages of 26 to 50 matches. However, effective June 5, 1939 the rate of 9/40¢ was established for packages of 26 to 30 matches.

⁽²⁾ *Canadian Grocer*, of May 1, 1949 reported that the list price of Maple Leaf matches was \$8.50 per case at Toronto, which may be compared with the previous list price of \$11.97 per case. These prices would be subject, presumably in both cases, to cash discount of 2 per cent and carload discount of 2 per cent.

SALES TAX. The rates of sales tax since January 1, 1924 have been as follows :

| | |
|-------------------|--|
| 1924, January 1 | 6 per cent |
| 1924, April 11 | Decrease from 6 per cent to 5 per cent |
| 1927, February 18 | Decrease from 5 per cent to 4 per cent |
| 1928, February 17 | Decrease from 4 per cent to 3 per cent |
| 1929, March 2 | Decrease from 3 per cent to 2 per cent |
| 1930, May 2 | Decrease from 2 per cent to 1 per cent |
| 1931, June 2 | Increase from 1 per cent to 4 per cent |
| 1932, April 7 | Increase from 4 per cent to 6 per cent |
| 1936, May 2 | Increase from 6 per cent to 8 per cent |

SIZES OF MATCH BOXES. Until the end of the first World War household matches were generally sold in boxes containing 500 matches, although boxes of 200 matches were also in use toward the end of the period. About 1922, the 500 box was dropped and a box of 400 matches came into general use. This box remained the standard size box for household matches until 1934, when it was replaced by a box of 300 matches. The latter has continued as the most common type of box until the present time. Boxes of 300 matches were being distributed at the time of the formation of Eddy Match Company, Limited in 1927 by one or more companies, but at that time and for a period afterwards, the so-called 3's were packed in 100 boxes to the case rather than 144 boxes to the case, which is the common form of packing for the standard size box.

II. MERGER OF COMPETING MATCH BUSINESSES IN EDDY MATCH COMPANY LIMITED IN 1927

The developments which preceded the formation of Eddy Match Company, Limited in 1927 and which have been briefly outlined in the preceding chapter may now be examined more closely. The organization of the match industry in Canada was being profoundly affected by the relationships established among the principal world producers of matches. In the United States, the Diamond Match Company had gained a dominant position, which was paralleled by the position of Bryant & May Limited in Great Britain. Swedish Match Company, incorporated in Sweden in 1917, was extending its influence in foreign markets under the financial direction of Ivar Kreuger, the noted Swedish international financier and industrialist. The interests of these dominant producers over-lapped in a number of markets and led to a series of arrangements designed to protect the interests of each. In this report, however, reference is made to foreign developments only insofar as they relate to the creation of a match monopoly in Canada.

At the end of 1921, as has already been mentioned, only E. B. Eddy Company, Limited, Hull, P.Q. and Dominion Match Company, Limited, Deseronto, Ontario, were recorded as active producers of matches. This situation was soon changed by the establishment of two new producers, Canadian Match Company, Limited (in which Bryant & May and Diamond Match were to be the dominant interests) and The Match Company, Limited, (shortly to come under the control of Swedish Match).

FORMATION OF CANADIAN MATCH COMPANY, LIMITED. Canadian Match Company, Ltd., Pembroke, Ontario, was incorporated on November 11, 1921, following an agreement in October, 1921 between W. A. Fairburn, president of the Diamond Match Co. of the United States, and Sir Alexander Maguire, of Maguire, Paterson & Palmer (Canada) Ltd. The Maguire company operated a wooden match splint factory at Pembroke, Ontario, later known as Canadian Splint & Lumber Corporation Ltd. This agreement provided that the companies associating to form the new company would not (on their own) manufacture wooden matches in Canada or import them into this country (Exhibit 96). The principal shareholders in the new company were The Diamond Match Co., Maguire, Paterson & Palmer (Canada) Ltd. and Bryant & May Ltd., each having approximately the same interest. In 1924 Bryant & May acquired control of the Canadian Splint and Lumber Corporation Ltd., and purchased the Maguire shares in Canadian Match, thus becoming the majority shareholder in this latter company.

FORMATION OF WORLD MATCH CORPORATION, LIMITED. The entry of Bryant & May and Diamond Match into the Canadian match industry, through the operation of Canadian Match, was followed by a venture by Kreuger of Swedish Match Co. to acquire a position in the Canadian market. In 1923, through an American subsidiary, International Match Corporation, Kreuger acquired World Match Corporation Ltd. from American Splint Corporation. The Canadian subsidiary had been incorporated in 1917 under the name Log Supply Company Limited to engage in the production of match splints. The construction of a factory at Berthierville, P.Q., was undertaken in 1919. In 1922, when it was decided to manufacture matches in this factory, the name of the company was changed to The Match Company, Limited. In May, 1923 a further change in name was made to World Match Corporation, Limited.

The successive efforts of Canadian Match and World Match to sell their products in the Canadian market led to a period of severe rivalry between themselves and with the older E. B. Eddy Co., Ltd. During this period substantial losses were incurred by the new companies (Exhibit 73), and possibly by the match division of E. B. Eddy Co., Ltd. The extent to which these losses were due to over-capacity

in relation to the then available market or to severe price competition among the companies cannot be determined from information available. The losses of World Match, during the period 1923 to 1927 inclusive, amounted to more than \$2,000,000. Its continued operation during this period would appear to have been possible only by constant financial support from the controlling foreign interest.

FORMATION OF BRITISH MATCH CORPORATION, LIMITED. Rivalry in the Canadian match industry between American, British, and Swedish interests appears to have been only one phase of similar rivalry extending to other markets. Attempts of each group to establish or maintain market positions in this way could be pursued only at heavy financial cost, and efforts to reach agreements to replace competition by co-operative agreements were evident by 1927. A first step in this direction was a reconciliation of the conflicting interests of Bryant & May and Swedish Match. On July 1, 1927 it was agreed to form British Match Corporation, Ltd. to act, in effect, as a holding company for Bryant & May and the interests of Swedish Match in most parts of the British Empire. Swedish Match was to receive 30 per cent of the shares of the new company with the remaining 70 per cent to be distributed to the owners of the ordinary shares of Bryant & May, which latter became the property of British Match. Diamond Match acquired approximately 5 per cent of the ordinary shares of British Match in exchange for the then remaining balance of Bryant & May shares which it had acquired in 1901, when it sold its factory in Great Britain to that company.

CONDITIONS AND NEGOTIATIONS IMMEDIATELY PRIOR TO INCORPORATION OF EDDY MATCH COMPANY, LIMITED. The agreement to form British Match cleared the way for other agreements with respect to the Canadian market. Within six months Bryant & May had acquired the beneficial interest in the net assets of World Match through purchase of all 6,000 outstanding shares of World Match from International Match. The cost of these assets to Bryant & May amounted to approximately \$2,425,000 (Exhibit 103), which included the liquidation of World Match's indebtedness of approximately \$1,525,000 to American subsidiaries of Swedish Match.

The merger of all principal match companies in Canada now appears to have been the ultimate object. This necessitated the acquisition of the match division of E. B. Eddy Co. Ltd., which prior to December 31, 1927 had acquired Dominion Match Co. Ltd., Deseronto, Ontario, where match production had ceased.

Full information is not available concerning negotiations prior to inclusion of the match division of E. B. Eddy Co. Ltd. in the merger. These negotiations appear to have been between Ivar Kreuger, representing Canadian Match and World Match, and R. B. Bennett, representing E. B. Eddy Co. Ltd., and resulted in a signed "Draft Agreement" dated October 4, 1927.

Briefly, this agreement provided for the incorporation of a new company to be known as Eddy Match Co. Ltd., and for the sale to it of (1) the match division of E. B. Eddy Co. Ltd., including inventories and machinery, but not the buildings or steam boilers at Hull, P.Q.; (2) the land, buildings and machinery of Dominion Match; and (3) the assets of World Match and Canadian Match (Exhibit 152).

There is no definite indication in the documentary evidence as to when W. A. Fairburn of Diamond Match took a direct part in the discussions leading to the formation of the new company. On November 17, 1927, however, G. W. Paton of Bryant & May wrote to B. C. Snead, who was associated with Diamond Match, reporting his agreement with Kreuger that the new company would have 120,000 common shares, with no nominal value, and proposing that, apart from 9,600 shares which were to be issued to E. B. Eddy Co. Ltd., 47,400 shares should be issued in payment for the assets of Canadian Match (Exhibit 103) and the remaining 63,000 shares in payment for World Match which was owned by Bryant & May. This allocation of shares to Canadian Match and World Match shareholders was based on the investments they had made in the companies.

AGREEMENTS GOVERNING PURCHASE OF ASSETS BY EDDY MATCH COMPANY, LIMITED. Eddy Match Co. Ltd. was incorporated under Dominion Letters Patent dated December 14, 1927, and operations commenced as of January 1, 1928.

A special shareholders meeting held on February 2, 1928 approved agreements between the new company and those companies from which it had purchased assets. Subject to certain conditions, one agreement required Eddy Match to issue 63,000 common shares in payment for the assets of World Match, which company was allowed to retain up to \$250,000 of its assets to pay outstanding debts, and World Match agreed not to manufacture or sell matches in Canada for ten years from January 1, 1928.

A second agreement provided that Eddy Match would take over from E. B. Eddy Co. Ltd. its match division and business, goodwill (relating to the manufacture and sale of matches only), patents, trademarks, inventories, (with a guaranteed value of \$300,000), and all subscribed and issued shares of Dominion Match. Also, E. B. Eddy Co. Ltd. agreed to lease to Eddy Match certain buildings at Hull and to supply them with light, heat and power. E. B. Eddy Co. Ltd. agreed to enter into an exclusive agency agreement with the new company for three years from January 1, 1928 for the sale and distribution throughout Canada of all matches manufactured in Canada by Eddy Match. The new company agreed to issue to E. B. Eddy Co. Ltd., or its nominees, 30,000 six per cent cumulative preferred shares with par value \$100 each, together with 9,600 fully paid non-assessable common shares, plus a cash payment of \$28,000. E. B. Eddy Co. Ltd. agreed not to manufacture or sell matches in Canada for ten years from January 1, 1928, or otherwise engage in the match business except with the written consent of Eddy Match (Eddy Match Minutes, pp. 52-65).

A third agreement provided for the sale to Eddy Match of the business of Canadian Match, effective January 1, 1928, which latter company was to receive 47,391 fully paid common shares from Eddy Match for distribution to its shareholders, and it was allowed to retain up to \$250,000 in cash or accounts receivable to pay outstanding debts. In this case it was agreed that at no time after January 1, 1928 would Canadian Match engage in the manufacture or sale of matches (Eddy Match Minutes, pp. 45-47).

The terms of these agreements concerning the issue of Eddy Match shares were almost identical with the proposals outlined in G. W. Paton's letter dated November 17, 1927 to B. C. Snead (Exhibit 103), as previously mentioned. Shares were originally issued as provided in the agreements. However, on December 9, 1927, W. A. Fairburn had written to G. W. Paton, taking strong exception to the proposed terms for payment to Diamond Match for its share in Canadian Match. Instead, he proposed four alternatives, the first of which read :

"(1) If The Diamond Match Co. takes up one-third and the British Match Corporation two-thirds of the outstanding demand notes of the Canadian Match Co., The Diamond Match Co. will accept 25% of the Common stock of the Eddy Match Co. in exchange for its stock interest in the Canadian Match Co." (Exhibit 74)

Prior to the sale to Eddy Match, but subsequent to the Bennett-Kreuger agreement, notes payable by Canadian Match to Bryant & May of \$450,000 and to Diamond Match of \$230,000 were converted into 4,500 shares and 2,300 shares issued to each respectively. (Exhibit 73)

B. C. Snead, a director and secretary of Eddy Match, who appears to have been acting on behalf of Diamond Match, wrote to A. G. Woodruff, then vice-president and general manager of Eddy Match, on August 9, 1928 (Exhibit 117) giving instructions for the issuance of certificates for 15,118 common shares of

Eddy Match to nominees of Diamond Match. The share transfer register of Eddy Match shows that on September 22, 1928, 14,882 common shares were transferred from G. W. Paton and C. E. Bartholomew of Bryant & May to H. F. Holman, T. J. Reynolds and H. G. Lucas, who were all connected with The Diamond Match Company (Exhibit 75).

After the transfer of shares on September 22, 1928, the common shares of Eddy Match were owned as follows :

| | |
|-----------------------|-----------------|
| Bryant & May Ltd. | 76,157 shares |
| The Diamond Match Co. | 30,000 " |
| E. B. Eddy Co. Ltd. | 9,600 " |
| Various Individuals | 4,243 " |
| | <hr/> 120,000 " |

The number of shares owned by Diamond Match constituted 25 per cent of the total number of shares outstanding, which was the proportion named in W. A. Fairburn's first proposal of December 9, 1927, quoted above.

The transfer of Eddy Match shares from Bryant & May to Diamond Match appears to have made a substantial difference in the cost of the interest which each company then had in Eddy Match. On the basis of the available records the investment of Bryant & May in shares of Canadian Match, including shares acquired from Maguire, Paterson & Palmer and those obtained from the conversion of notes, amounted to \$1,003,840. In addition it had spent about \$2,425,000 for sole ownership of World Match. Thus Bryant & May, which had paid out approximately \$3,428,840 for its World Match and Canadian Match holdings got in return, on the final settlement with Diamond Match, 76,157 shares of Eddy Match. On the other hand, Diamond Match, which had not shared in the cost of World Match and whose 5,500 shares of Canadian Match were valued at approximately \$550,000, received 30,000 shares of Eddy Match.

All 30,000 six per cent cumulative preferred shares of Eddy Match, redeemable at \$125 each, were issued originally to E. B. Eddy Co. Ltd. In January 1947, the Eddy Match share register showed the preferred shareholders to be as follows :

| | |
|--------------------------------|--------------|
| The Diamond Match Co., or | |
| H. F. Holman, Treasurer | 20,750 |
| Bryant & May, Ltd. | 5,000 |
| British Match Corporation Ltd. | 4,250 |
| | <hr/> 30,000 |

As at February 6, 1947, the share register of Eddy Match Co. Ltd. showed the common shares to be held as follows :

| | |
|-----------------------------------|---------------|
| Bryant & May, Ltd. or nominees | 79,587 |
| The Diamond Match Co. or nominees | 33,953 |
| Various Individuals | 6,460 |
| | <hr/> 120,000 |

MANAGEMENT AND CONTROL OF EDDY MATCH. When it was organized Eddy Match took over the operation of three match factories : one in Hull, P.Q. in space rented from E. B. Eddy Co. Ltd.; a second in Pembroke, Ontario, (former Canadian Match plant) in buildings rented from Canadian Splint and Lumber Corporation, Ltd., a wholly-owned subsidiary of Bryant & May; and a third in Berthierville, P.Q., (former World Match plant) where Eddy Match owned the buildings. Sales were being made through the sales organization of E. B. Eddy Co. Ltd. according to agreement.

By July, 1928 decision had been reached to cease the manufacture of matches at the Hull factory, and to concentrate production at Pembroke and at Berthierville where considerable renovation was undertaken. Eddy Match never operated the plant of Dominion Match at Deseronto, Ontario. Effective January 1, 1929, E. B. Eddy Co. Ltd. ceased to represent Eddy Match as exclusive sales agents (Exhibit 280).

The management of Eddy Match since incorporation has been directed by persons connected with The Diamond Match Co. In a letter dated December 9, 1927, to G. W. Paton, W. A. Fairburn said :

"The Diamond Match Co. would enter into an agreement with the British Match Corporation to manage the Eddy Match Co., furnish equipment at a fair price, and supply all processes, formulae, etc., gratis and agree not to enter into direct competition with the Eddy Match Co. in the manufacture and sale of Strike-Anywhere or Strike-on-Box matches in the Dominion of Canada, in return for which it would require and receive 5% of the annual profits of the Eddy Match Co. after the Preferred stock dividend and all interest on notes and bonds are paid and all deductions covering tax assessments are made." (Exhibit 74)

The records examined do not include any signed agreement covering all or any of these conditions. From the time Eddy commenced operations in 1928 until his death in 1947, however, W. A. Fairburn was in name and in fact the managing director of Eddy Match.

The original Board of Directors of Eddy Match elected on February 4, 1928, was composed as follows :

| | |
|-------------------|--|
| G. W. Paton | President, Eddy Match Co. Ltd. Chairman and Managing Director, Bryant & May, Ltd. Chairman, British Match Corporation, Ltd. Director, Canadian Splint & Lumber Corporation Ltd. |
| W. A. Fairburn | Chairman and Managing Director, Eddy Match Co. Ltd. President, The Diamond Match Co. Director, Canadian Splint & Lumber Corporation, Ltd. |
| Ivar Kreuger | President, International Match Corporation |
| C. E. Bartholomew | Deputy Chairman, Bryant & May, Ltd. |
| A. A. Aitken | Montreal |
| B. C. Snead | Deputy Chairman, Deputy Managing Director and Secretary, Eddy Match Co. Ltd. Director, Canadian Splint & Lumber Corporation, Ltd. |
| E. A. Dunlop | President, Pembroke Lumber Co. Ltd. Director, Canadian Splint & Lumber Corporation Ltd. |
| A. G. Woodruff | Vice-President, General Manager and Treasurer, Eddy Match Co. Ltd. Director and General Manager, Canadian Splint & Lumber Corporation, Ltd. |
| F. Atterberg | Vice-President, International Match Corporation. |

This group represented Swedish Match (which was interested through ownership of 30 per cent of the shares of British Match), Bryant & May, Diamond Match and minority shareholders including E. B. Eddy Co. Ltd.

Although W. A. Fairburn exercised management control, Bryant & May, through majority ownership of common shares, held financial control of Eddy Match. Preferred share ownership does not give a vote in the management unless

the 6 per cent dividend is unpaid for an aggregate period exceeding one year. This has never occurred.

A brief description of the chief personalities involved in the management of Eddy Match, since incorporation, follows :

W. A. Fairburn and W. A. Fairburn, Jr. Until a few years prior to his death in 1947, W. A. Fairburn, president of Diamond Match, was a director of Bryant & May. Records examined substantiate that he exercised full management control of Eddy Match, but reported regularly to Bryant & May, the majority shareholders, on operating results and profits. W. A. Fairburn, Jr. succeeded his father early in 1948. W. A. Fairburn, Jr. is not an officer or employee of Diamond Match but is a director of Bryant & May (Evidence, p. 204). An explanation of this may be found in the terms of a consent decree entered into on April 9, 1946 by Diamond Match and several defendants in an antitrust action instituted by the United States Department of Justice. In a complaint issued in May, 1944 against a number of companies, including Diamond Match, Swedish Match, Bryant & May, and Eddy Match, the United States Antitrust Division sought to restrain certain international and domestic activities of the defendants which were alleged to be in violation of the Sherman Antitrust Act. Without admitting the substance of the allegations, Diamond Match and a number of other defendants consented to a judgment being entered which provided, among other things, that no officer of Diamond Match could be at the same time an officer of any other defendant company engaged in the same business (this would include Eddy Match, British Match and Bryant & May who did not submit to the jurisdiction of the court). In the case of officers of both Diamond Match and Eddy Match at the date of the judgment, an exception was made permitting them to remain as officers of Eddy Match for not more than five years after the date of entering of the judgment.

B. C. Snead and J. C. Sebright. Since the incorporation of Eddy Match Co. Ltd., advice on legal, financial, sales, and manufacturing problems has been given by persons associated with Diamond Match. B. C. Snead, an American attorney associated with W. A. Fairburn, and first secretary of Eddy Match, supervised all legal matters, organization of business for directors' meetings, etc. After his death, his successor, on February 23, 1939, as deputy chairman and secretary of Eddy Match Co. Ltd., was his former associate, J. C. Sebright.

H. F. Holman and W. W. Howe. Direction in financial matters was from time to time under H. F. Holman, one-time secretary of Diamond Match, who became its treasurer in 1921. The late W. W. Howe, auditor for Diamond Match, exercised advisory authority over the accounting problems of Eddy Match.

E. P. Miller, T. J. Reynolds, A. G. Woodruff, H. A. Rudd and H. Hart. E. P. Miller, vice-president and sales manager of Eddy Match, worked for years under the direction of the late T. J. Reynolds, vice-president and general sales manager of Diamond Match. He was general sales manager of Canadian Match at the time of the merger.

Since the death in 1929 of A. G. Woodruff, general manager of Eddy Match, Canadian operations have been conducted under the joint supervision of two officers, one resident in Pembroke, Ontario, and the other in Montreal, P.Q. A. G. Woodruff was succeeded at Pembroke by H. A. Rudd, who was followed in 1942 by H. Hart, now vice-president, treasurer and a director of the company. E. P. Miller, who is also vice-president and a director, has directed the sales policy of the company from Montreal since the beginning of its operations. Both Hart and Miller receive instructions from the managing director, W. A. Fairburn, Jr., who succeeded his father early in 1948.

When E. B. Eddy Co. Ltd. ceased to act as sales agents for Eddy Match on January 1, 1929, the latter set up its own sales organization which has remained practically unchanged.

In Quebec and Ontario sales territories, distribution is handled by the company's own sales offices in Montreal and Toronto, respectively, and in other territories by commission agents as listed hereunder. The division of sales territories and distributors (commission agents) is as follows :

| | |
|----------------------|--|
| Prince Edward Island | — S. C. Moore, Charlottetown |
| Nova Scotia | — Pyke Bros. Ltd., Halifax |
| New Brunswick | — Schofield & Beer, Saint John |
| Quebec | — Montreal Sales Office of Eddy Match Co. Ltd. |
| Ontario | — Toronto Sales Office of Eddy Match Co. Ltd. |
| Prairie Provinces | — Tees & Persse, Ltd. at various locations throughout Western Canada, including Head of the Lakes. |
| British Columbia | |

Since September, 1929, Eddy Match has employed a western sales supervisor, C. B. Nickerson, who works in close co-operation with Tees & Persse, Ltd. and directly under E. P. Miller, general sales manager of the company.

III. ACQUISITION OF AURORA MATCH CORPORATION IN 1928 AND DISAPPEARANCE OF COLUMBIA MATCH IN 1932

The merging of the match businesses of Canadian, Eddy and World companies in the Eddy Match Company in 1927 meant that competition among match producers in Canada disappeared. Competition in the period prior to the merger, in the circumstances already described, had been severe, but the grouping of all manufacturing plants under one control created a situation where competition could be restored only if a new producer was prepared and able to enter the market and establish itself on an independent basis. The elimination of competition in the trade in matches following the merger is reflected in the following comment in the *Winnipeg Commercial* of March, 1928 :

"Stable prices with very little fluctuation is expected on match prices. An amalgamation of all the Canadian match manufacturers will discontinue a fluctuating market on this commodity."

The mere size and extent of operations of Eddy Match and its possession of trade names long-established in the public mind would make it extremely difficult for any new company to get a start in the match industry in Canada, let alone establish a firm position in the trade. In spite of these handicaps and others which will be referred to later, new companies have attempted to become established in the industry from time to time. Their activities have been closely followed by Eddy Match, which has endeavoured to prevent any encroachment on its position as the predominant supplier of matches in the Canadian market.

1. *Aurora Match Corporation, Limited*

The first potential competitor to which Eddy Match appears to have given attention after it commenced operations was the Aurora Match Corporation, Ltd., Aurora, Ontario. In 1928 this small company, although not in commercial production, had apparently manufactured matches on an experimental basis. Although A. G. Woodruff, Eddy's general manager, did not seem to regard possible competition from the Aurora plant very seriously, negotiations were undertaken for its purchase. Mr. Woodruff commented on the proposal in a letter of February 15, 1928 to T. J. Reynolds of Diamond Match :

"With reference to your letter of the 8th., with copies of letters from Mr. T. Kerr, would say that I cannot become actually interested over any activity regarding Aurora, as personally I am still of the opinion that it is better for us, should anyone else decide to go into the Match Business, that they start with the handicap which Aurora is bound to be.

I have never been of the opinion that we would be permitted to have Canada without some competition; but I am personally of the opinion that we would advance a long way toward stemming the desire, and perhaps I may go as far as to say the necessity of National Grocers, whom I believe Mr. Medlin represents, from considering going into the Match Business, were it not for the very unfortunate Sales Agreement which we have with the E. B. Eddy Company. I am inclined to believe that were it possible for us to deal direct with some of these people we could avoid considerable of the feeling which has been aroused of their account. I would not care to have this opinion expressed to anyone else at the present time, it being my intention now to see you, and discuss this with several other matters at the earliest opportunity that I can find.

.....

Further with reference to Aurora, I do not feel that there can be anything gained by my making an immediate visit to Toronto and Aurora." (Exhibit 109)

The negotiations were carried to completion and Eddy Match acquired Aurora Match in May, 1928 at a total cost of \$27,500, including commissions and legal fees. Eddy Match did not make use of the plant to manufacture matches.

2. Competition of Columbia Match Company of Canada Limited

This company, incorporated as a Dominion company on July 30, 1928, was the first to make a substantial effort to establish itself in competition with Eddy Match. A public offering of shares in the new company was made in August, 1928, and in June, 1929 Columbia began producing matches at a plant in St. Johns, P.Q. The president of the new company had been president of Columbia Match Company of Cleveland, Ohio, in which the new Canadian company acquired a controlling interest. The vice-president and director of sales of Columbia Match was P. A. Conway, who had been sales manager of World Match.

Columbia Match became bankrupt in February, 1932, after less than three years of active operations. A complete record of its activities was not obtained but the nature of the competition which existed in the industry during its period of operations is disclosed, to some extent, in the available records of Eddy Match and its subsidiaries and will be referred to later in this report.

Columbia Match set out to secure a modest proportion of the match business in Canada, according to information given out at the commencement of its operations. In an article published in *Canadian Grocer* of August 31, 1928 it was stated that the new company was planning the erection of a factory with an output equal to approximately 10 per cent of the matches used in Canada. Activities of Columbia Match appear to have been followed closely by Eddy Match from the time the new company was organized. On November 6, 1928 G. W. Paton wrote to A. G. Woodruff in regard to an announcement that a British company had entered into an arrangement for the use of its patents by Columbia Match and said :

"No doubt you will watch their efforts and see they are carefully 'attended to' if they attempt to take any of our business from us."

In the following year Eddy Match arranged to purchase a few shares of Columbia Match stock through a nominee. B. C. Snead wrote to H. A. Rudd on October 10, 1929 :

"It was agreed that it would be well for the Company to purchase this stock... in the name of a dummy—such ownership to give us the privilege of examining the list of stockholders and other corporate records of the company as well as entitling us to receive all statements and reports, etc." (Exhibit 141)

COMPETITION BETWEEN COLUMBIA MATCH AND EDDY MATCH. Over the years Eddy Match has employed similar tactics in dealing with each new producer whose sales might alter in any significant degree the monopoly which had resulted from the amalgamation of the match factories in 1927. On its formation Eddy Match possessed control over the entire commercial production and distribution of wooden matches throughout the Dominion apart from the relatively minor imports which entered occasionally. It also possessed, as has already been pointed out, trade names for matches which were established in the public mind. Any new producer of matches could hope to secure consumer patronage only if he could obtain distribution through established trade channels or offer some inducement, such as lower prices, which would lead purchasers to try the new product instead of the Eddy match which was so well known. The policies followed by Eddy Match have been applied to prevent any significant growth of a new producer by these means. The fact that Eddy Match possessed the entire market and that the newcomer, when he commenced business, possessed none made it possible for Eddy Match to modify its selling policies in any particular direction to deal with each manifestation of competition without altering its over-all price structure. In most instances, Eddy Match had to take account only of the limited activity of one possible competitor in particular areas, whereas the new producer had the nation-wide competition

of Eddy Match with which to contend. This has resulted in what might be termed 'selective' competition on the part of Eddy Match to meet but not to extend the competition resulting from the entrance of a new producer. Such selective competition might take the form of offering special prices in areas where the new producer was seeking to find customers or by putting out special brands of matches which could be sold in direct competition with the brands of the newcomer, but which would not result in the standard or listed Eddy brands being sold at reduced prices. Special arrangements with large distributors which would lead them to refrain from handling matches of a new producer could close off large sections of the market to a possible competitor. The manner in which these tactics were employed may be illustrated by reference to correspondence during the period when matches made by Columbia were being marketed.

WESTERN CANADA. Eddy Match distributed a Blue Ribbon brand of matches at a price below that of its regular brands in the Prairie Provinces when competition from Columbia Match was encountered in 1929. Such lower-priced lines were known as "fighting brands", as they were employed for the purpose of checkmating attempts of a competitor to make sales in a particular locality. The objective in the use of a fighting brand and the special way in which distribution was to be made are illustrated in a branch office circular of Tees & Persse, Eddy's Western agents, dated September 17, 1929 which contained the following :

"Mr. Nickerson and I have had an interesting time calling on the Winnipeg trade. We explained that in order to meet competition our Principals offered Blue Ribbon 4's at 50¢ per case below the price of regular 4's, i.e. Blue Ribbon will be invoiced on the regular basis, but each purchase will be followed by a cheque for 50¢ per case,..."

The circular then described the results of visits to various jobbers, including two of the principal firms which operated a number of branches. With respect to the latter the circular stated :

"Macdonalds Consolidated Ltd. — Mr. John Crawford gave us a wonderful reception. He was most interested in Blue Ribbon and said he would at once write all branches to handle Eddy's Matches exclusively..."

Western Grocers Limited. Mr. Alexander was quite pleased with our offer on Blue Ribbon and intimated this would shut out Columbia as far as they are concerned..."

The circular concluded :

"As intimated above, we have 500 cases Blue Ribbon on the way to Winnipeg and we sold some to every large handler except Codville. Please therefore understand that Blue Ribbon are not to be offered by you as Mr. Nickerson will do the necessary when he arrives in your territory. It is not the idea to in any sense push the sale of Blue Ribbon, i.e. we hope the jobbers will simply use them to meet Columbia competition. We repeat, we have given you a confidential report on our interviews with the Winnipeg trade and we desire the information to be treated confidentially." (Exhibit 280)

Mr. Nickerson, Eddy's Western representative, reporting to E. P. Miller on the same date, wrote :

"In closing I might say that the Western Grocers were particularly friendly to us on this Blue Ribbon deal, and Mr. Alexander intimated to us that he would write his branches to push our lines, and from what I could gather they were only too anxious to keep away from an unknown brand such as Columbia is putting out. To date I cannot see where Columbia are to secure any business over this territory except possibly the Codville Co. and the fact that our brands of matches are being quoted so low will of course make it less interesting to the jobbing trade to take on any other lines.

As you will notice in Mr. Persse's letter, Vancouver and Fort William are not at the present time to get the Blue Ribbon deal and I sincerely trust that it will never get into British Columbia. As you are aware, Blue Ribbon are getting altogether too much sale at the present time." (Exhibit 280)

Two days later, on September 19, Mr. Nickerson sent a further report to Mr. Miller informing him of the way in which the distribution of Blue Ribbon matches

was being made. His letter contained the following :

"The reason for allowing the Macdonalds the hundred is the fact that the Safeway stores are opening eleven new stores on the first of the month and they are very anxious to use the Blue Ribbon at the same price which the Piggly-Wiggly are selling the Columbia Brand, i.e. 9¢ per box. Mr. Crawford intimated to me that Safeway would push the sale of Blue Ribbon. I also was very careful to discuss at length the present situation regarding the handling of the Safeway business by the Macdonalds Consolidated. Mr. Crawford made the statement that they were selling the Safeway stores on the same basis as they offered the rest of the trade and that he had the one-price policy. I immediately expressed the fear that should he push that policy with the Safeway and sell them matches 7% above cost it might be possible that the Columbia could go to them direct and offer them direct prices which naturally would mean a considerable saving and while at the present time we were not offering to sell the Chain Stores nevertheless it was well to understand one another and that before we would allow this business to go to our opposition we would certainly consider seriously the handling of this case direct, but we felt that with his assurance there would be no chance of them slipping in under the wire, we would be perfectly willing to leave the matter rest in his hands.

In answer to this he said that their arrangements with the Safeway were such that there would not be the slightest chance of anything like this happening and should the time come that he could not handle the Safeway business he would immediately advise us so that we ourselves could approach them." (Exhibit 280)

In addition to distributing the lower-priced Blue Ribbon matches to check the sale of Columbia matches, Eddy Match made other deals with certain customers to fortify its position. Reference to one such deal was made by E. P. Miller in a letter of September 21, 1929 to R. G. Persse of Tees & Persse :

"The outline in your letter of the proposition which Ross Richardson [Columbia representative] offered Mr. Crawford is really no more than we expected, and when you consider that in the deal which you and Mr. Nickerson made with Mr. Crawford you closed the door on COLUMBIA matches for Ross Richardson, he of course found himself against the wall when Mr. Crawford told him that he was not interested in COLUMBIA matches, and in spite of the fact that he had presumably offered him a confidential price on 10-M cases of COLUMBIA matches he immediately turned around and offered a lower price on a carload of COLUMBIA.

In our opinion the deal which Mr. Crawford has with Eddy Match Company Limited at the present time, in spite of the fact that the latest offer from Richardson is from 15 to 30¢ per case below our BLUE RIBBON price, is a much better one for Macdonalds Consolidated than the one offered by Richardson, and we feel quite certain that Mr. Crawford would be of this same opinion if he analyzed the whole situation.

We have made a deal with Mr. Crawford which is a good one for him, and I do not mind saying that I think it is a good one for us. At the same time, neither Mr. Crawford nor ourselves should be stampeded by new quotations made by Ross Richardson on COLUMBIA matches. We all know that our brands of matches, including BLUE RIBBON, will out-sell any COLUMBIA brands which are unknown on the market and have yet to be accepted by the trade.

I am sure you fully appreciate that it would be impossible for us to include BLUE RIBBON in the special 2%, especially in some cases where it would make a lower price than the quotation on COLUMBIA, and even though this is only from 2 to 6¢ per case we certainly should not have to sell our matches at a lower price than COLUMBIA, and I am sure that when I receive the information in regard to your second interview with Mr. Crawford it will be to the effect that he appreciates that our proposition, even though he is paying a few cents more for BLUE RIBBON than for COLUMBIA, is a much better one for Macdonalds Consolidated." (Exhibit 245)

The inference is clear from Mr. Miller's letter that a special discount on Eddy matches selling in large volume would be much more advantageous than a lower price on matches of a competitor selling in much smaller volume. As the letter indicates, E. P. Miller thought that the deal with the jobber had, in this case, "closed the door on COLUMBIA matches."

ONTARIO. A few examples from the evidence will indicate some of the actions taken by Eddy Match to meet competition from Columbia matches in Ontario. At the beginning of 1932 Eddy Match received information from its Toronto sales office that Columbia matches were being offered at low prices to the T. Eaton Company

Limited. In a letter of January 14, 1932 E. P. Miller wrote to S. Oliver, the company's representative in Toronto :

"Under these circumstances, and if you feel they are going to make a change unless they obtain a lower price, I would suggest that you try and find out what price they will have to have in order to have the Maple Leaf matches net them 47¢ above the Columbia quotation and if this price will not put us below the price to Dominion Stores and Loblaw, then I think it would be well to keep the T. Eaton Company on Maple Leaf matches. Therefore, if you will let me have this information if you can obtain it, we shall then know what to do.

.....

From what information we can obtain, it does not appear that the Columbia Match Company have been very aggressive so far this year, but if they are selling carloads in Windsor and are after the T. Eaton Company with low prices, we certainly would like to have any definite information you can get about these sales so that we can take some action to protect our business if it is proven to be necessary." (Exhibit 244)

S. Oliver wrote on January 18 that arrangements had been made with the T. Eaton Company to adjust "the quotation on MAPLE LEAF'S to the same figure as given other chains". Question arose as to the method to be followed in invoicing matches at the special prices and S. Oliver wrote to Eddy's Montreal office on January 20 as follows :

"Replying to yours of January 19th, re T. Eaton Co. Limited.

When discussing the price of MAPLE LEAF matches with Mr. Gadway on Monday, we intimated to him, that they would be invoiced at 15 less 5% with 2% ten days and an advertising allowance of .20¢ per case, and this seemed to be a satisfactory way of dealing with it.

However, if Mr. Miller wishes to retain the present monthly credit, we will adjust this with Mr. Gadway, tho we are at present of the opinion, that the method out-lined first above might prove to be the best." (Exhibit 244)

He was sent the following reply on January 21 :

"Acknowledging your letter of the 20th instant in reply to ours of the 19th with reference to the new manner of invoicing MAPLE LEAF 4/144 matches to the T. Eaton Co., Limited.

Mr. Miller would prefer to invoice less 3% rather than 5%, not wishing the T. Eaton Co., Limited to have in their possession an invoice less this larger discount of 5%." (Exhibit 244)

The efforts made by Eddy Match to confine any general reduction in price to special brands, such as Blue Ribbon, are illustrated in a letter written on February 11, 1932 by the Toronto Sales Office to E. P. Miller in regard to sales made to Loblaw Groceries, from which the following is taken :

"We think what Mr. Cork has in mind is, that as we are offering matches, viz : BLUE RIBBON at a lower price than they are paying us for matches, that we should supply him the brands we are now shipping them at as low a price as BLUE RIBBON.

His view of course is, that the quality of BLUE RIBBON is so good, that it is not surpassed by either MAPLE LEAF or SILENT, and consequently we should not charge him more money for the latter brands.

Of course we know he could buy BLUE RIBBON at BLUE RIBBON prices, and we would be glad to supply these to him rather than to let him get away to our then competitor. He does not want this brand, but still thinks he should be able to buy the brands he does want at an equal price.

On our part, we have stressed the fact, that both MAPLE LEAF and SILENT are really better quality goods than BLUE RIBBON, due to the difference in inspection, and we have pointed out, as quality goods they are worth the small difference charged." (Exhibit 200)

Eddy's interest in prices was not confined to selling prices to the trade but extended to the prices charged consumers. In a letter of February 8, 1932, S. Oliver wrote to E. P. Miller :

"In discussing present conditions with Loblaws, we emphasized the fact that they would have to increase their resale price and we volunteered to do anything we could with all of the chains to bring this about." (Exhibit 200)

Columbia Match, as already indicated, became bankrupt in February, 1932 and Eddy Match apparently considered that this was an appropriate time to have prices revert to levels prevailing at an earlier period, as indicated in the following letter of February 12, 1932 from the Montreal office to S. Oliver at Toronto :

"In reverting to prices prior to October 21st with the following accounts, will you please confirm our understanding thereof noted below :—

Dominion Stores Limited — Loblaw Groceterias Co., Limited and Arnold Bros., Limited — list price, less trade discount and 2% carload discount on all purchases. Dominion Stores Limited receiving 20¢ per case monthly rebate on purchases of MAPLE LEAF 4's and Loblaw Groceterias receiving 20¢ per case monthly rebate on Maple Leaf 4's and Silent 4's.

T. Eaton Co., Limited — invoiced less 15% trade discount only with monthly rebate of 40¢ per case on their purchases of MAPLE LEAF # 4. Will you kindly advise if we are to continue the 2% carload discount rebate by monthly credit note inaugurated last month.

Amos B. Gordon Co., Limited — Monthly rebate of .278¢ per case on PINE TREE #4 to be discontinued.

National Grocers Co., Limited — .278¢ per case monthly rebate to branches on National and Red & White 4's to be discontinued.

Will you please advise if we are to continue to allow F. W. Humphrey Co., Limited the 2% carload discount on 100 case purchases, not including BLUE RIBBON brand.

We are presuming it will be in order to discontinue to allow the 2% carload discount on Blue Ribbon matches purchased by Geo. Watt & Sons Limited.

Messrs. A. H. Boulton and Scales & Roberts Limited, Windsor have both been receiving 50¢ per case monthly rebate on their purchases of Maple Leaf pockets and Sesqui specially labelled. Will you please advise if this is to continue." (Exhibit 244)

S. Oliver wrote on February 20, 1932 :

"Replying to your letter of February 19th, and referring to yours of February 12th, re allowances.

We did not reply to this earlier, as we were daily expecting a visit from Mr. Miller, with whom we would like to discuss some of these items.

However, we have definitely restored the old basis to Dominion Stores, Loblaws and Eaton, and think it as well to allow Eaton the 2% on MAPLE LEAF O.

National Grocers and Amos B. Gordon understand that the 27.8¢ has been discontinued; altho in the case of National Grocers this will have to be allowed on February 5th order of Toronto, February 6th orders for St. Thomas and Owen Sound and February 9th shipment to Niagara Falls.

Regarding allowances to F. W. Humphrey, George Watt & Sons, A. H. Boulton and Scales & Roberts, Windsor, these in natural course of events would also be discontinued, providing further shipments of matches are not being made by Columbia Match Company, and we are under the impression that shipments are still being made by this company, particularly as we have seen their product on the railway cartage Company trucks this week." (Exhibit 244)

Columbia Match was operated for a few months in receivership after its bankruptcy in February, 1932 and Columbia matches continued to be regarded as a disturbing factor for some time. On April 29, 1932, Dominion Stores Limited wrote to E. P. Miller about the competition being met with in Toronto :

"We have right along here in Toronto the competition of the A. & P. with Columbia matches at 3/21¢, and there seems no end to their supply, so we are not having a pleasant time trying to sell matches here, or to make any profit on them at the present time.

While we do not wish to take any unreasonable position in this, we would be glad to have you re-consider the matter, in view of our being up against this Columbia Match competition here." (Exhibit 244)

Mr. Miller replied on May 9 :

"I note your remarks about the competition you are having in Toronto, and in order that the 1100 cases of matches which we invoiced to you on March 30th will net you the same cost as the 1450 cases invoiced you earlier in that month, we are enclosing our cheque for \$347.60 which will bring the net cost of these 1100 cases down to the same cost figure as the matches we previously invoiced.

Trusting that our action in this matter will be entirely satisfactory to you."

(Exhibit 244)

In acknowledging the receipt of the cheque in a letter of May 10, Dominion Stores Limited referred to the confidential nature of the allowances received from Eddy Match and to the variation in them :

"We are still left in the situation, of course, that while we continue to face a price of 3/21¢ for Columbia matches down here, and appear to be in as bad a shape competitively in this division as in Montreal division, our confidential allowance here is very much less than we are receiving in Montreal. This is of course not known to my Toronto buyers, so they will not bring the point up in any way, but I am still wondering why the confidential allowance to us in Montreal should be so much more than you feel you can give us in this division.

Perhaps some time when I am in Montreal I could have a little chat with you about this. I certainly do not want to disturb in any way the present Montreal arrangement by complaining re the Toronto one." (Exhibit 244)

MARITIME PROVINCES. Only a few exhibits refer to competition in the Maritime Provinces during the period when Columbia matches were on the market. On January 27, 1932, Pyke Bros. Limited, Eddy's agents in Nova Scotia, reported to the Montreal office as follows :

"We have a letter from both Carvell Bros. and DeBlois Bros. Charlottetown, who both state that they had not received our circular letter sent to them advising of the special price of \$9.56, which you gave us for a week on Blue Ribbon Matches, and evidently this was so, as we did not receive any bookings from them.

They have both made a suggestion that possibly you would consider giving them, for a period of one week, in order to make their bookings at this price; this to apply only to P. E. I. It would not interfere with Nova Scotia in any way, as they do not do business on the mainland and would be confined entirely to P. E. I.

If after carefully considering it, you approve of their suggestion, please advise us." (Exhibit 280)

In a reply dated January 29, Mr. Miller wrote :

"We have your letter of January 27th., from which we note that Messrs. Carvell Bros. and DeBlois Bros. of Charlottetown did not receive your letter advising the price of \$9.56 on Blue Ribbon matches.

Under the circumstances, I think it would be well for you to give them this price for a week on Blue Ribbon matches in order to place them in the same position as the other jobbers with reference to the \$9.56 price on Blue Ribbon, and I hope it will enable us to get some of the business that has been going to competition on Prince Edward Island."

(Exhibit 280)

Pyke Bros. Limited made a further inquiry as to the position of Blue Ribbon matches in a letter dated April 12, 1932 :

"We notice on your new price list of April 8th, you do not quote Blue Ribbon, are we to take it from this that you have withdrawn this line from your list and that you do not purpose [*sic*] making any more of this brand? Or if it is an over-sight please advise us if we can still book them on the old basis less 50¢ per case special allowance." (Exhibit 223)

E. P. Miller replied as follows :

"In reply to your letter of April 12th., our price list of April 8th does not include BLUE RIBBON brand of matches. We have never listed this brand, and as you know, we are using it to meet competitive prices.

The price of Blue Ribbon is the same as that of all number four sizes, \$12.91 less the usual discounts, and the 50¢ special allowance will apply." (Exhibit 223)

On August 31, 1932, a few months after Columbia Match had ceased operations, the following notice of cancellation of the special allowance on Blue Ribbon matches was sent to Pyke Bros. Limited by E. P. Miller :

"On and after September 1st, 1932, you will please discontinue making the fifty cents allowance below the price of regular brands on BLUE RIBBON MATCHES.

The price of Blue Ribbon matches will be the same List price as all of our other number four brands." (Exhibit 279)

3. *Bankruptcy of Columbia Match.*

According to estimates made by Eddy Match on the basis of excise tax payments (Exhibit 262), Columbia Match secured the following share of the Canadian market in its brief career as compared with that held by Eddy Match :

| | Eddy | Columbia |
|------------------------|----------------|-----------------|
| 1928-29 | 99.65 per cent | (not operating) |
| 1929-30 | 92.54 " " | 7.46 per cent |
| 1930-31 | 86.6 " " | 13.36 " " |
| 1931-32 ⁽¹⁾ | 82.17 " " | 14.35 " " |

As has been shown in correspondence already cited, the bankruptcy of Columbia Match in February, 1932, resulting in the possible disappearance of a competitor, was a factor to which Eddy Match gave immediate consideration. E. P. Miller wrote to Messrs. Schofield & Beer, Eddy's agents at Saint John, N. B., on February 18, 1932, as follows :

"The report that the Columbia Match Company was petitioned into bankruptcy on February 5th is correct. This bankruptcy petition would, of course, indicate that this company has been selling matches at too low prices and what is going to become of the company in the future is, of course, something that I am not in a position to say to-day, as I do not know anything about it.

I understand that the Receiver is liquidating some of the matches which they have and there is a possibility that the stock of Aviator and DeLuxe that they have in Saint John will also be liquidated, and while some of the members of the Company are making extravagant claims as to what they are going to do in the future, we hardly think they are going to be able to fulfil their promises as this does not seem quite possible; nevertheless, there has been a substantial amount of money put into this company and time only will tell what will eventually become of their operation.

With reference to the price on BLUE RIBBON matches; we are willing to accept business to-day at 50¢ per case below the price of our regular number 4 brands of matches..."
(Exhibit 279)

In a letter of February 11, 1932, to the Amos B. Gordon Co. Ltd. of Toronto, E. P. Miller had written :

"I have your letters of February 6th and 10th, and note your remarks about an advance in taxes on matches.

I have no information about any changes in tax on matches; however, every year there is a possibility of an advance in tax on matches and with the Government in the position of needing extra revenue, the general opinion seems to be that there will be an advance in Sales Tax which I feel quite certain will automatically advance the net cost of a case of matches.

It is, of course, very difficult to give you something concrete as far as an advance is concerned, but in addition to the taxes, we have to advance our prices of matches over the low prices at which they have been sold, especially in the face of the fact that at the present time one of our competitors has been adjudged 'Bankrupt', and we naturally assume this is because they have sold matches too cheaply and at a price that did not give them sufficient profit. Under these circumstances, it would be ridiculous for us to sell matches at a price which did not give a fair profit."
(Exhibit 279)

It will be recalled from the references in exhibits quoted earlier that Eddy had apparently endeavoured throughout the period of Columbia Match competition to maintain generally the schedule of prices on its standard brands of matches and to establish lower prices only on those brands which were used for the special purpose of checking sales by its competitor.

By May 18, 1932, E. P. Miller was able to write to Eddy's Western representative, C. B. Nickerson :

"For your information and use conservatively, the sale of the assets of the bankrupt Columbia Match Company was ratified to-day by the court to the Falkirk Company.

We do not know a great deal about the Falkirk Company; however, we understand that

(1) Canada Match commenced production in this period.

there are no immediate plans on their part to operate the old Columbia Match Company factory.

The point in connection with the matter is that, we understand, the stockholders of the bankrupt Columbia Match Company got noting and that the investors in this company have practically lost all of their money.

I do not think it would do any harm to impress this on any prospectors in a Match business in Canada, as certainly, the experiences of the investors in the Columbia Match Company would show that they made a very poor investment, and if anyone tries to float a further stock-selling scheme for shares in a Match company, the more they know the unfortunate result of the investors in the Columbia Match Company, the less opportunity anyone will have to raise funds in the future.

You will understand that I would not want you to make any Radio speech about this and I am depending on you to use your best judgement in speaking of this, but the only reason I am asking you to do this is that we do not wish to have anyone in our organization deliberately spread propaganda about the misfortune of others, even though the statements are absolutely true." (Exhibit 228)

The tactics followed by Eddy Match in dealing with competition from Columbia Match appear to have been intended not to maintain a competitive position but to retain a monopoly position. The correspondence cited in this chapter shows how fighting brands, confidential prices, special discounts, allowances and rebates can be used to limit competition. In some instances it is stated frankly that such deals were made so that the dealer would "handle Eddy's matches exclusively" or to "shut out Columbia". The general purpose was to prevent, as far as possible, the jobbers on whom Eddy Match relied for major distribution of its matches from handling competitive lines. The general effect must have been, as the exhibits indicate, to close off the main channels of distribution to the competitive producer.

IV. ORGANIZATION OF COMMONWEALTH MATCH BY BRYANT & MAY AND DIAMOND MATCH TO OPERATE COLUMBIA MATCH FACTORY

In their first effort to establish a monopoly position in the Canadian market, Bryant & May and Diamond Match amalgamated the various match businesses which they acquired into one company, Eddy Match Company Limited. Within a year of the incorporation of Eddy Match, a new company, Columbia Match, had been organized outside the monopoly group and soon entered into active competition with Eddy Match. The manner in which Eddy Match met this competition and the bankruptcy of Columbia Match have already been described. While the efforts of Columbia Match to establish itself as a continuing competitor had been unsuccessful, there remained the match plant at St. Johns, P.Q. As long as this factory was in existence outside the monopoly group, Eddy Match had to face the possibilities of renewed competition. This situation was met by Bryant & May and Diamond Match setting up an operating company, Commonwealth Match Company, Limited, to take over the match property at St. Johns but which would have no outward relationship with Eddy Match. This policy of maintaining Commonwealth Match as an apparently independent competitor was continued until the time of the investigation, when the relationships between the various match companies in Canada controlled by Bryant & May and Diamond Match became subject to examination.

The assets of the bankrupt Columbia Match, as has already been mentioned, were purchased by Falkirk Company Limited from the trustee in May, 1932. Falkirk was incorporated under Dominion Letters Patent on May 2, 1932 and had a relatively short existence, surrendering its charter on February 16, 1934. Its directors were all members of a Montreal legal firm.

Falkirk's activities were described in a letter of August 13, 1933, from one of the directors to the Under Secretary of State, in which he said that they

"... merely consisted in holding certain properties and before March 31st, 1933, it had sold these properties and its whole enterprise to an operating company."

From subsequent events it seems obvious that Falkirk was formed at the instigation of either Bryant & May or Diamond Match or both of them in order to purchase the assets of the bankrupt Columbia Match.

Commonwealth Match was incorporated under Dominion Letters Patent on November 22, 1932. Since March, 1933, it has manufactured matches at St. Johns, P.Q. in the plant formerly owned and occupied by Columbia Match.

Although Philip B. Keyes, vice-president and treasurer of Commonwealth Match has had the local management of the company's operations, executive financial and management responsibility has been exercised by those associated with Diamond Match. Mr. Keyes assumed his position with Commonwealth Match shortly after its incorporation. Prior to joining the new company he had been associated with Diamond Match in California and with Canadian Match and Eddy Match in Canada.

W. B. Rennick has been sales manager for Commonwealth Match since September, 1935. Before that P. A. Conway, who had formerly been vice-president of Columbia Match, and W. A. Becker were in charge of sales work for the company.

1. *Financial Control of Commonwealth Match*

The financial arrangements in connection with the control of Commonwealth Match have been of a highly complicated nature, particularly with respect to the minority interest maintained for Diamond Match. They present a confusing picture

in which a number of companies are involved at different stages. These companies include: Falkirk, Gore, Ledburn, Hilton, Pan-American, Universal, Valcourt. While the available records do not show fully how the transactions have been conducted, some indication of their nature can be gleaned from the information which has been secured and which will now be summarized.

The assets of Columbia Match were purchased from the Falkirk company by Commonwealth Match shortly after its incorporation. Records of Commonwealth show that the purchase price was \$424,000 and the following securities were issued in payment :

\$300,000 in aggregate principal amount of 6% twenty-year first mortgage bonds due January 1, 1953.

\$100,000 in 1,000 fully paid and non-assessable shares of 7% cumulative (redeemable) preferred stock of the par value of \$100 each.

\$ 24,000 in 10,000 fully paid and non-assessable common shares of no par value capital stock.

On December 31, 1932, Falkirk instructed that 1,000 preferred shares and 9,995 common shares be issued to its nominees as set out in the letter of instructions. The remaining five shares of common stock were to be allotted and issued to the five applicants for incorporation of Commonwealth Match. The bonds with an aggregate principal amount of \$300,000 were to be delivered to the vice-president of Falkirk.

On June 28, 1934, the board of directors of Commonwealth Match authorized two changes in the terms of the Bond Trust Deed. Under the provisions of the original Trust Deed the bonds were to be redeemed at the rate of \$15,000 per annum. This provision was cancelled in its entirety and the interest rate on the bonds was reduced from 6 per cent to 5 per cent per annum. This action was taken with the full approval of the bondholders. In agreeing to this arrangement, Bryant & May, the majority bondholder, strongly urged that all possible steps be taken to retire the bonds at a rate of not less than \$10,000 per year. As at December 1947, however, no reduction in the bond issue had been made.

From 1932 until the end of 1946 all shareholders of Commonwealth Match were acting as nominees for the real owners of the shares. Throughout this period Bryant & May held a 70 per cent interest in the company, being beneficial owner of 700 preferred shares and 7,000 common shares through its nominee Gore Co., c/o Canadian Bank of Commerce, St. James Street, Montreal P.Q., and of \$210,000 of the first mortgage bonds. The subsequent disposition of these securities in 1947, when ownership was assumed by Eddy Match through its subsidiary Valcourt Company Limited, is dealt with in a later section.

With respect to the 30 per cent minority interest the record of ownership has been a more complicated matter due to the intervention of holding companies.

Ledburn Company Limited was incorporated under Dominion Letters Patent on June 30, 1933. The activities of the company are stated in a letter of December 11, 1933, from its treasurer to the Comptroller of Provincial Revenue, Quebec, P.Q., wherein he said :

"The Company is a holding company only, doing only the business of holding the shares and bonds of these two other incorporated Companies [one of which was Commonwealth]."

(Exhibit 291)

A sheet of paper, apparently dealing with the incorporation of Ledburn, on which handwritten notes had been made and which P. B. Keyes, vice-president and treasurer of Commonwealth, said that it looked as if it might be his (Evidence, p. 666) is of assistance in determining the beneficial ownership of the 30 per cent interest in Commonwealth. This document details the securities with values as shown :

| | |
|--|-----------------------|
| 300 — 7% Cum[ulative] Pref[erred] Sh[ares] par value \$100 | \$26,112.53 |
| 3,000 — Com[mon] sh[ares] no p[ar] v[alue] | 1.00 |
| \$90,000 (Can[adian]) 20-yr. 1st M[ortgage] 6% bonds | 76,500.00 |
| | <hr/> |
| | 102,613.53 |
| | C[anadian] F[unds] |

"Dem[and] note Dia[mond] for \$102,613.53 Sh[ares] & B[onds] as coll[ateral]. Then sold sh[ares] & B[onds] to Ledburn for \$120,000 C[anadian] F[unds] rec[eived] in exchange 1,200 sh[ares] of the no par val[ue] stock of Ledburn. Then arrange with Dia[mond] to substitute sh[ares] of Ledburn for sh[ares] & Bo[nds] of Com[monwealth] as coll[ateral] for the demand note."

(Exhibit 288)

The oral evidence of Mr. Keyes in respect of this document is in part as follows :

"Q. Then it says : 'Dem. note to Dia. for \$102,613.53. Sh. and b. as coll.'

A. Shares and bonds as collateral.

Q. Then 'Sold sh. and b. to Ledburn for 125,000 [sic] C.F.'

A. Canadian funds.

Q. 'Rec. in exchange 1,200 sh. of the no-par val. stock of Ledburn. Then arrange with Dia. to substitute sh. of Ledburn for sh. and b. of Com. as coll. for the demand note.'

Can you tell me for whose benefit that was being done ? Who was putting up the \$102,000 ?

A. It looks like Diamond Match."

(Evidence, p. 667)

The evidence shows that the Ledburn company became the owner of these shares and bonds of Commonwealth Match.

In November 1935, The Hilton Company Limited, which appears to have been another holding company, was incorporated under Dominion Letters Patent. Immediately after its incorporation, the directors of Hilton accepted an offer to purchase all the outstanding shares of Ledburn. The purchase price was obtained through a loan from the National Provincial Bank of London, England. There is no direct evidence to indicate that the Hilton company was controlled by Diamond Match or its officers. On December 23, 1935, however, B. C. Snead, who was associated with Diamond Match, wrote to P. B. Keyes in his capacity as treasurer of Ledburn :

"... we see no reason why the nominees of record should not represent the new owner of the Ledburn shares, and you can allow the stock records to so stand until further advised to the contrary."

(Exhibit 293)

The next development occurred in July 1937, when Ledburn sold all its assets, including the shares and bonds of Commonwealth, to Pan-American Match Corporation, an American company. The proceeds from the sale of these assets were turned over to the Hilton company, as beneficial owner of all issued and outstanding shares of Ledburn, and were in turn used mainly to retire the loan which Hilton had originally obtained from the National Provincial Bank of London, England, to purchase the Ledburn shares. A short time later Ledburn surrendered its charter.

Pan-American Match Corporation was incorporated in the United States on March 31, 1937. Shortly thereafter, Diamond Match acquired all of its then issued capital stock, then distributed all of this stock to the stockholders of Diamond as a dividend. Between this time and December 31, 1941, Pan-American Match acquired other assets and issued additional stock, all of which was distributed to Diamond's shareholders as a dividend. On December 31, 1941, the name of Pan-American Match Corporation was changed to Universal Match Corporation, which continued to own the minority interest in Commonwealth Match until 1947 when, as will be described later, ownership of the company was acquired by Valcourt Company Limited, a holding company which had been set up by Eddy Match.

While it appears from the above account that there were numerous changes in the ownership of the 30 per cent interest in Commonwealth, it seems reasonably clear that at all times this interest was, in effect, maintained for Diamond Match.

A possible explanation for the use of various nominees as holders of Commonwealth securities is indicated by a letter of February 21, 1936, from B. C. Snead to P. B. Keyes in the latter's capacity as treasurer of Ledburn. In referring to certain other holdings of Ledburn, Mr. Snead stated :

"... you will appreciate that the purpose of having the Universal Match Securities Corporation stock held in the names of several nominees is, as is often the case, to conceal the real ownership, ..."

(Exhibit 298)

During the years in which it operated outwardly as an independent company Commonwealth Match occupied a very anomalous position in the Canadian trade. On the one hand, it was to the interest of Eddy Match that the selling policy of Commonwealth should not upset the control over prices which had been established. On the other hand, if Commonwealth was to maintain the appearance of an independent manufacturer in any significant degree it was necessary that it should be able to secure a reasonable volume of business which would be difficult if Commonwealth had to sell its products at the same prices as the more popular Eddy brands of matches. There was a further consideration which was in evidence during the periods when Eddy Match was in active competition with actually independent firms. In those periods, Commonwealth brands of matches might be used for the same purpose or in place of Eddy's "fighting brands". While the records are not sufficiently complete to permit the tracing in detail of the various policies followed in selling Commonwealth matches, some indication is given in the following chapters of the manner in which operations were conducted. One principle which seems to have been maintained fairly consistently was that, whatever price differentials might be established on the first sale of Commonwealth matches, such price advantages should not be used to disturb the levels of resale prices which had been established for Eddy matches. The continued insistence on this principle is illustrated by an exchange of correspondence in 1942 between Commonwealth Match and its agent in Edmonton. In a letter dated August 18, 1942, A. Penn Brokerage of Edmonton wrote :

"Regarding C. Woodward Limited. Due to the fact that our matches must be retailed for the same price as Eddy's, Mr. Laing the buyer, feels that he can not duplicate his match stocks without first having a selling advantage over say Red Bird. He is selling Red Bird [Eddy] at three for twenty-eight and he would of course have to sell Chateau Brand [Commonwealth] at the same figure, but if he were allowed to sell Chateau Brand at say, three for twenty-six then he would be interested, but not unless he could do this consistently."

(Exhibit 323)

Replying to this letter on August 20, 1942, W. B. Rennick, sales manager of Commonwealth Match wrote :

"With reference to the retail accounts, Hudson's Bay Co., and Woodward Ltd., we feel that with a .40¢ differential that these two concerns should be interested in pushing our matches to make the extra profit. Breaking the price to .26¢ would not, in my opinion, be a solution to the problem. You would eventually have other retail accounts meeting the Chateau resale of .26¢ and Redbird at the same price. At least this is the way it generally looks. I would rather you would show these people the advantage of the extra profit."

(Exhibit 323)

The period of most active operations of Commonwealth Match coincided with the years when Eddy Match was experiencing most active competition from other match companies. When such competition was eliminated the level of output at the Commonwealth factory tended to decline.

2. *Concealment of Relations between Commonwealth Match and Eddy Match*

Throughout the period of the existence of Commonwealth Match, up to the time of this investigation, considerable efforts were made to avoid disclosure of the community of interest between Commonwealth and Eddy arising out of the common financial and management control. The purpose was obviously to give to the trade and the public generally the impression that Commonwealth Match was a genuinely independent competitor and that Eddy Match did not possess a monopoly of the match business in Canada.

On May 4, 1932, at the time when Falkirk was purchasing the assets of Columbia Match, C. B. Nickerson, Eddy's representative in Western Canada, sent a telegram to E. P. Miller which contained the following :

"HORTON RECEIVED WIRE FROM ROSS CUSTODIAN TO TRACE AND DIVERT CAR BLOCKS TO US STOP HORTON WIRED BACK WHO AUTHORIZED SAME ANSWER ARRIVE TODAY THAT MR. SNEED [SNEAD] NEW YORK GAVE INSTRUCTIONS..."
(Exhibit 227)

E. P. Miller sent the following message in reply :

"WIRE RECEIVED PLEASE KEEP INFORMATION STRICTLY TO YOURSELF."
(Exhibit 227)

It will be recalled that B. C. Snead, an associate of W. A. Fairburn, was the first secretary of Eddy Match.

On November 18, 1932, E. P. Miller replied to an inquiry from Walter Woods, Limited, Winnipeg, as to future operation of the Columbia Match plant, in the following terms :

"With reference to your enquiry as to whether or not the Columbia Match Company is going to get back into business : as far as I can see at the present time, there is no evidence that would make me believe that anyone is going to start to operate this Plant within the very immediate future. I imagine that before this could happen, it would be necessary to raise additional capital, and this might be a difficult thing to do under present business conditions, especially in face of the fact that the former owners of the company did not make a success out of it, which would undoubtedly make investors a little bit leary about placing their money on a proposition that had been a losing one. We, of course, hope we shall have no further competition in the Match industry for some time to come; however, we are unable to give you any definite information about this competition, as we do not know what their intentions are."
(Exhibit 173)

On August 18, 1933, B. C. Snead sent a letter to P. B. Keyes, St. Johns, Que., containing the following :

"I have been asked to request that should you have occasion to communicate with anyone connected with Diamond that you do so through me."
(Exhibit 325)

By 1936, J. E. Duffey, president of Industrial Management Engineers, Inc., New York, had assumed an active role in the direction of plant operations of Commonwealth Match. Industrial Management Engineers, Inc. and its subsidiary, Management Engineers of Canada, Limited rendered services in connection with labour and production matters to the various match plants in Canada controlled by Bryant & May and Diamond Match. On August 1, 1936, J. E. Duffey wrote to P. B. Keyes giving instructions to ship certain equipment to E. J. Molyneux, who was an engineer at Canada Match Co. Ltd., Hull, P.Q., which had been acquired by Eddy Match some months previously. In instructing P. B. Keyes on the manner of charging for the equipment, J. E. Duffey wrote :

"We want nothing to show on our records under any name except Management Engineers of Canada in this regard."

He added this postscript :

"P. S. Suggest you keep a file at home of all letters & memos relative to joint action on sales & things of this nature, and keep the plant files clear. Suggest you go through plant files for anything of this nature and remove it." (Exhibit 308)

On October 31, 1936, J. E. Duffey wrote to T. J. Reynolds of Diamond Match in regard to some aspects of Commonwealth Match sales policy. A copy of his memorandum marked "Confidential — Do not file at plant" was sent to Mr. Keyes. The memorandum concluded :

"The real meat of the cocoanut of course is that Commonwealth's quota each month should be obtained easily, without the loading of any customer and without undue expense if Mr. F's [Fairburn's] expressed desire as regard quotas is completely recognized by Eddy." (Exhibit 303)

In explaining his part in the conduct of the affairs of Commonwealth Match, E. P. Miller said :

"No, I never had any connection with the Commonwealth officially, at all ; no. The connections were, as I say, between Mr. Reynolds, whom I had worked for, for twenty years or more, he being in a position that he did consult me." (Evidence, p. 482)

Without having any formal position in the Commonwealth Match organization, E. P. Miller appears to have played an active part in its management. Mr. Duffey wrote to P. B. Keyes on October 27, 1936, enclosing a copy of a memorandum written by T. J. Reynolds about the way in which a particular account of Commonwealth Match should be handled. Mr. Reynolds had written :

"I am advised that while they have been getting the quota for Commonwealth the last few months it has been a most difficult thing to accomplish, and I hope that you will agree with me that we had better let this firm be handled by Mr. Rennick and Mr. Miller..." (Exhibit 232)

The efforts made to prevent any record being kept of transactions among related match companies in Canada are illustrated by arrangements made in 1937 in connection with the transfer of lumber from Canada Match to Commonwealth Match. These are described in a letter of July 9, 1937, from J. E. Duffey to A. A. Washburn, manager, Provincial Wood Products Co., Saint John, N.B., a copy of which was found in the records of Commonwealth Match. Mr. Duffey wrote :

"Due to certain conditions, Eddy Match Company is going to make a lumber advance to Provincial Wood Products Company of \$21,000.00 at once. This money will be used by you to pay to *Canada Match Company of Hull, Quebec*, for nine cars of lumber they will charge to you, but which will be unloaded at the Commonwealth Match Company at St. John, Quebec. The match plank will be invoiced to you at \$59.00 per thousand, which you will promptly pay as you are billed.

Pro Wood will invoice the cars as shipped to Commonwealth at \$54.00 per thousand feet and Commonwealth will pay Pro Wood as the lumber is used. Pro Wood will pay Eddy as Commonwealth pays them at \$54.00 per thousand, which will leave Eddy standing \$5.00 per thousand loss.

Will you arrange to handle these transactions on your books ? You might consider showing on your books a credit to Eddy of \$19,000.00 and placing the other \$2,000.00 in a special account that can be closed out to P. and L. at the end of the year. Pro Wood is simply acting as a transfer agent in the matter, and will suffer no loss or gain, except the loss, of course, of the Commonwealth business handled in the past.

If necessary to get more details, Mr. E. P. Miller, Eddy Match Company, Montreal, can be called up by you.

Please keep me advised as to how this plan works out.

Regards.

(Initialed) JED

JED : ER

J. E. D.

P.S. Do not keep this letter in your files, but destroy same, once you are clear on it.

J. E. D."

(Exhibit 232)

J. E. Duffey had written to E. P. Miller on June 29 in regard to these transactions and had advised him to "Please destroy this letter". However, a copy was found in the records of Commonwealth Match. This letter contained the following postscript :

"P.S. Am in receipt of following note : 'In switches of this nature please be sure that Allu [Canada Match] and John [Commonwealth] are not tied up together in the Lumber Co.'s (or any other Co.'s or person's) mind. They are competitive and must be treated as such.'

K's contract should be carried out by Allu, and you handle details between Allu and John." (Exhibit 232)

Asked to comment on such correspondence, E. P. Miller said in evidence :

"No, sir; I never kept them at all because I did not feel that I had any right to them, and immediately I got any of that correspondence it was thrown in the waste basket." (Evidence, p. 488)

Indication of E. P. Miller's close attention to Commonwealth sales policy is given in a letter of October 19, 1938, from W. B. Rennick, sales manager of Commonwealth, to P. B. Keyes. Mr. Rennick wrote :

"I was over to see Mr. Miller this morning and he is very insistent that we discontinue Chateau entirely. I told him I have asked you to make 100 cases and when you have finished this lot, that will be all for the year.

He feels that when things get straightened out, we will be able to get \$9.00 for Chateau next year." (Exhibit 232)

Further indication of Mr. Miller's participation is given in a letter to him of January 12, 1939, signed W. A. F[airburn], a copy of which was found in the records of Commonwealth :

"I am still hopeful that we can work the management of Commonwealth around to the point where they will take their estimates seriously and make them carefully. Each year to date, they have caused me some embarrassment. Please play close with J. E. Duffey and the management of Commonwealth so that I will be able to get into a position of having confidence in the figures reaching me from that company." (Exhibit 232)

E. P. Miller maintained a general supervision of the financial results of Commonwealth Match's operations. J. E. Duffey gave instructions as to the furnishing of statements in a letter of September 14, 1940, to P. B. Keyes :

"I wrote Mr. Miller on September 12th sending you a copy in regard to your mailing the Commonwealth statements direct to Mr. Miller in place of their first coming to this office. Along the same line, the statements should be mailed to Mr. Miller in an envelope carrying your home address on the upper left hand corner and mailed to Mr. Miller's home address.

In this way neither the name of the Commonwealth Company nor the other company would appear on the envelope, and this should give us the desired protection.

Will you please be guided accordingly." (Exhibit 232)

More specific direction of Commonwealth Match affairs by E. P. Miller is indicated in the following memorandum of December 30, 1940 :

"P. B. K[eyes]

I am enclosing statement giving sales quota for the year 1941 and also the manufacturing quota by months.

These quotas have been approved, and it is suggested that the manufacturing quota be held to 3,375 cases each and every month throughout the year and that the manufacturing quota be at this volume even though there may be some months throughout the year, on account of buying booms that the sales may be over the quota.

I have been advised by Mr. F[airburn] that the manufacturing quota he kept uniform each and every month regardless of sales, with the idea that this will give a uniform production each and every month throughout the year and eliminate the possibility of having to have any shut-down on account of large production one month because if sales are large for any period they will necessarily have to be smaller in following months.

E. P. M[iller]"

(Exhibit 232)

A copy of a letter of February 24, 1943, to J. E. Duffey written by W. A. Fairburn, shows the close attention which E. P. Miller gave to Commonwealth Match. Mr. Fairburn wrote :

"I have been working with E. P. Miller, in Canada, to see if it would be possible to give Commonwealth a little more business and take it from Eddy, so that Commonwealth could approximately maintain the recent dividend disbursement on the Common Stock.

We had been talking of a certain eighty-five hundred cases, but the figures of Commonwealth for January are so bad that we feel very much like throwing up our hands."

(Exhibit 303)

By 1946, H. Hart, vice-president and treasurer of Eddy, had become involved in the financial administration of Commonwealth Match and he was advised by W. A. Fairburn in a letter of November 8, 1946, how the matters should be arranged :

"Because of certain Government activities in Canada, it seems necessary for E.P.M. to keep in the background when it comes to correspondence and letters in file in his Montreal office. Will endeavor to have W.A.F. Jr. contact him in regard to this phase of the matter. It is understood, of course, that the matter that you require will be obtained for you by W.A.F. Jr., who can appear in the picture as a representative of Bryant & May, and he has no direct contact, holds no official position and is not on the payroll of Diamond. As you know, Diamond has no stock interest in Commonwealth, but is interested, as is Bryant & May, in the Eddy Company. There is no objection to your personal conversations with E.P.M. It would seem that E.P.M. could keep in touch with Canada, Federal and Valcourt affairs, but should have no contact, as far as the files are concerned, with Commonwealth, or with officials of that company. J.E.D., as set forth on the bottom of page 1 of your letter, should be the clearing-house for all Commonwealth figures, and such figures could reach you through W.A.F. Jr.

I am writing to Mr. Hacking to-day, to ascertain the name of the Bryant & May official who will handle details by correspondence in regard to this revision in accounting. I do not desire to have copies of regular correspondence sent to me, but when statements are completed to your satisfaction, shall be glad to have you send them to me, and I will forward them to Mr. Hacking.

I think that it is highly desirable for you to have letterheads printed with your own name and personal address, or a box at the Pembroke postoffice, that would be separate and distinct from the Eddy and Canadian Splint companies, and no copies of correspondence dealing with this matter (if Commonwealth is mentioned therein) should be in Eddy files."

(Exhibit 107)

If all instructions regarding the destruction of correspondence or of the placing of records had been followed it would have been much more difficult to determine the common interest of Bryant & May and Diamond in match companies operating in an apparently independent manner. The efforts to avoid disclosure of the true financial interest in the several companies and of the central management which was being exercised were consistently maintained throughout the period prior to the investigation. The most detailed examination was necessary before the real nature of the relationships could be discerned. Such methods of operation in themselves raise serious question as to the nature and the effects of the relationships to which so much attention was given in an effort to conceal.

V. ENTRY OF CANADA MATCH AND SUBSEQUENT ACQUISITION BY EDDY MATCH IN 1936

After Eddy Match closed the match factory in Hull, P.Q., which had been operated by the E. B. Eddy Company prior to the merger in 1927, various efforts were made by interested groups to maintain the manufacture of matches in that city. In April, 1929, the Hull Match Company Limited was incorporated, under the Dominion Companies Act, but if that company ever began operations it apparently did not continue them for any length of time. On January 15, 1931, Canada Match Company Limited was incorporated as a Dominion Company to carry on the manufacture of matches in Hull. A leading shareholder and principal person in the management of the company during its first years was J. W. Charette. He had had no previous experience in match manufacturing but did have experience in the wholesale grocery business. A match machine was secured from the Bell Machine Co. of Oshkosh, Wisconsin, and manufacturing of matches was begun in rented premises in Hull some months after incorporation. Canada Match was thus making and selling matches before Columbia Match went into bankruptcy in February, 1932, and its activities soon became the subject of close attention by Eddy Match. When Canada Match began to seek outlets for its production of matches it encountered the competitive conditions which had developed through Eddy's efforts to check the sale of Columbia matches and which have been described earlier.

1. *Western Canada*

In British Columbia, Canada Match was successful in getting the W. H. Malkin Company, wholesale grocers of Vancouver, B.C., to handle its matches, although this jobber continued to purchase Eddy matches. Prices were apparently established somewhat below the level of Eddy's listed brands but the new product had to meet the competition of Eddy's Blue Ribbon as well as that of imported matches. The situation was described as follows in a letter of November 28, 1931, from Mitchell Brothers, Vancouver agents of Canada Match :

"I wish to acknowledge your wire of the 20th inst. and owing to the fact that I have hoped to get at least one Car Order to wire you before this, I have delayed writing you, we have run up against some stiff opposition this month which has upset our plans, in the first place Malkin was promised a car Order for Woodward's [sic] Departmental store but the Tacoma Match Co. took this business with some very low prices much lower than Malkin could meet, and the Eddy Match Co. have been quoting their Blue Ribbon Match down at prices that have slowed up the sale of the Canada Match, leaving Malkins stock of Canada too heavy to place another order just at present." (Exhibit 60)

Eddy's Western representative, C. B. Nickerson, viewed the efforts of the Malkin Company to sell Canada matches with some concern and made efforts to prevent any serious inroads by the new producer. In a letter of June 20, 1932, to E. P. Miller, he described the action taken to hold one account which showed signs of taking on Canada matches :

"You will notice by the enclosed letter from the Overwaitea Company that they are anxious to be placed on the direct list. This account, as previously advised is sold exclusively by Malkins. Some time ago these people phoned me up and in the interview he stated that the prices quoted on our matches was entirely too high, at which time he gave me his price on Canada at \$11.00. In view of the negotiations carried on with Malkins I felt it would be best to leave the matter ride until we found out as to whether they had any idea of living up to the promise given, i.e. to sell Canada at 25¢ a case below Eddy's 400s. A week after, these people got in touch with me again and stated that they were still able to buy Canada on the old basis and unless something was done they would immediately buy this brand to compete with other group stores that were handling them.

This conversation was followed up by the letter which I am enclosing which you can plainly see spells disaster for our volume. I told this firm that I would get in touch with you regarding the matter.

This morning the Overwaitea again called me up and advised me that unless something

was done immediately they were going to take on this brand. In the morning's mail I received your letter discussing this situation and after reading it I felt that we could not tamper with the situation any longer so I have now agreed to take an order for 200 cases to come along in our pool car, allowing 3, [sic] 60, 90 days. There will be no advertising of this fact that this firm is on the list but will wait until Malkins discover it and then I will tell them that this is the first group we have put on and unless they live up to their arrangements more will be placed on in order to protect our volume.

I believe, Mr. Miller, that there is absolutely no chance of cooperation from W. H. Malkin. They are at present quoting even our direct accounts and are today in the position of a competitor and not a wholesale grocer. It is all very well for Mr. McIntosh to take the view that we should not sell this account but we must not overlook the fact that Kelly Douglas themselves are manufacturers owing to the fact that they are selling Nabob products and they are going out selling these firms direct. On top of that Kelly's have no chance to participate in this particular group, therefore, I feel sure that I can take care of any opposition to our policy put forth by any member of the Kelly Douglas organization.

Certainly, from what is going around we cannot afford to allow Malkins with their 20 travellers out pushing the sale of Canada at cheaper prices to get a foot-hold. While it is true that the quality is not good, their prices sometimes catch the merchant. As far as consideration for the Malkin concern goes I feel that they are trying to make fools of us and the only way we can teach them a lesson is to take the stand we are and that is to sell any groups where it is necessary to protect ourselves.

I trust that you will agree with me and approve of the stand I have already taken."

(Exhibit 240)

The continuance of special allowances by Eddy Match is indicated in a letter of June 30, 1932, from E. P. Miller to C. B. Nickerson :

"Replying to your letter of June 21st., you may continue the 25¢ special allowance on OWL matches to David Spencer Ltd., in view of the fact that this chain store is giving us their exclusive Match business, and in order to be in a position to hold this, I think it better that we continue this special allowance for the time being."

(Exhibit 245)

The Jobin, Marrin Co. Limited, wholesale grocers of Winnipeg, Manitoba, who had accepted Canada matches, reported difficulty in finding outlets for the new brand in a letter of January 19, 1932, to Canada Match :

"We have your wire of the 18th inst., asking for an order for a second carload of matches. As wired you today, we have had uphill work in marketing these matches at the start. Your large competitor took notice of our activity by allowing a free deal on Red Bird matches, and inviting our own competitors' to sell them pretty close to cost.

.....

Present financial conditions in the West make buyers extremely careful and diffident about investing money in new brands of merchandise at this time."

(Exhibit 34)

C. B. Nickerson referred to the special deal on Red Bird matches in a letter of December 5, 1932, to E. P. Miller :

"I received your wire on Saturday morning regarding your disappointment over November sales. It certainly came as a disappointment to myself as I was under the impression from the reports I had that November would shape up also I felt that Winnipeg, which had sold up to the time I was there 2,000 cases and in view of the arrangements the jobbers were going to sell on i.e. 8% on cost, it would increase their volume, as I felt the jobbers would get out and push matches in view of the increase on December 1st.

You also ask in your wire for any recommendations regarding some plan for volume. Under present conditions my opinion is that the only thing that would secure extra volume would be either a cheaper price for this month or a deal such as we gave last year on Red Bird; 1 case free in 20; but in my wire I expressed the fear that any such proposition would cost us endless grief. In the first place it would mean that the Winnipeg jobbers, after entering into an agreement, would immediately disregard same and go out and quote at cheaper prices which would naturally react on us to the extent that we would be blamed for upsetting plans that we, ourselves, had been the instigator of. The trouble that we had with the Canada brands this last trip was solely caused through dissatisfaction of the jobber in not being able to make a profit on Eddy's brands and that left them in a receptive mood for this other concern with a proposition that meant a cheaper price."

(Exhibit 176)

Special confidential discounts were provided for in a contract drawn up on November 1, 1932, between Tees & Persse Limited, Western agents of Eddy Match

and Western Grocers Limited. This contract read :

"In return for your entire Match business from date to October 31st, 1935, the Eddy Match Co. Limited agree to sell you their various brands of matches at their list prices in effect at point of purchase from time to time, less their regular discounts in effect from time to time. The present discount and terms are :

Trade discount 15%

Terms 2% 10 Days, or net 30 Days

with an extra 2% for pool car lots of 200 cases or more.

The Eddy Match Co. Limited also agree to supply you with Red and White fours on the same basis as Silent fours, and Red and White Pockets on the same basis as Sesqui. Furthermore, if Owl threes are not withdrawn from the market before December 31st, 1932, the Eddy Match Co. Limited will thereafter supply you with Red and White threes on the same basis as Owl threes for as long as Owl threes are on the market. ⁽¹⁾

Providing you signify your acceptance of this Contract by placing your signature hereon, the Eddy Match Co. Limited will allow you, during the life of this Contract, a special confidential discount of 5% (five percent) on all Red and White brands supplied and a special confidential discount of 2% (two percent) on all Eddy Brands supplied.

This confidential 5% (five percent) on Red and White brands and 2% (two percent) on Eddy brands to be figured on the net amount of invoices rendered and before deduction of 2% (two percent) cash discount." (Exhibit 245)

The hope that this contract would establish a connection which no other match manufacturer could take away was expressed by E. P. Miller in a letter of November 7, 1932, to R. G. Persse :

"I acknowledge your letter of November 5th., together with accepted contract from the Western Grocers for their entire Match business up to October 31st, 1935.

I congratulate you on finally getting this contract signed and I certainly think it is a very good contract for Western Grocers. At the same time, it may and we hope will turn out to be a good contract for us.

I think the ceremony passed through by Messrs. Riley, Stewart and Alexander was more 'stage play' than anything else, but we should worry about that as long as they finally put their signature on the dotted line. I sincerely hope that between now and the end of the contract, we shall be successful in building a connection with the Western Grocers which it will be impossible for any other Match manufacturer to take away from us and I feel quite confident that this is going to be the case because I feel that during the next three years, they cannot fail to realize the benefit of a contract to them.

I am returning the contract which I have signed for you to turn over to the Western Grocers." (Exhibit 280)

An example of how special allowances were used in efforts to block sales by Canada Match is given in a report sent to E. P. Miller by C. B. Nickerson from Winnipeg on November 11, 1932. Mr. Nickerson told Mr. Miller of negotiations with John Crawford of Macdonalds Consolidated, which company had been offered the 300 size Canada matches at \$7.75 per case, delivered at any Manitoba point. Nickerson's report went on :

"... He then started to figure and said 'What is the difference between your Owl and these matches?' Geoff Macdonald being there I gave him a list of \$8.44 net on Owl, but I said 'Of course Mr. Crawford, you realize that there is more enters into this than the \$8.44 price, and that you are getting a deal that only is allowed providing you handle exclusively Eddy's Matches.' I happened to have a cheque which Mr. Halliday kindly forwarded to me at Calgary, payable to Macdonalds Consolidated for \$603.08. I purposely carried that cheque handy in case of emergency. I figure it was a good time to spring it, so I threw the cheque in front of Mr. Crawford with the statement 'How long would it take you to get this much money out of the Canada Match Co.? You know that you cannot get along without Eddy's brands, and you know also that the moment you buy another company's brands you forfeit the concessions and the generous treatment you have always received at our hands'. Mr. Crawford took the cheque, signed the receipt and said 'I guess that is all about that,' and told me they were not going to consider them, but he was anxious that no one else get the jump on them." (Exhibit 245)

(1) Throughout the period covered by this report standard size household matches have been packed in cases of 144 boxes. Unless otherwise noted it may be understood that prior to April, 1934, each of these boxes contained 400 matches and that after April, 1934, each box contained 300 matches. In comparing prices over the years this reduction in the number of matches in a case must be taken into account.

The efforts of the representatives of Canada Match to secure orders for matches in Winnipeg in 1932 were reported further in a branch circular of Tees & Persse Limited dated November 17, 1932 :

"Last week when Mr. Nickerson was with us, a Mr. McLean, representing the Canada Match Co., arrived in Winnipeg, called on the trade and did his utmost to secure orders and make contracts at prices which were apparently as much as \$1.00 per case under our prices. We, however, do not think he secured a single order...

Now men, Mr. Nickerson was successful in shutting out Mr. McLean in this city by pointing out the following facts. The company has only one machine, there is no guarantee that there could be a continuity of supply. Up to date the matches have not been satisfactory, and finally the trade can rest assured that our Principals do not intend to permit any opposition to undersell them and steal any volume of business. This does not mean, of course, that if the Canada Match Co. sold a few cases at a cut price our Principals would immediately reduce the price of their matches all through our territory, but you can rest assured that if any opposition steals any volume of business Mr. Miller would take action immediately...

In view of the fact Mr. McLean is already in Saskatchewan there is no time to be lost, and I feel sure that if you got on the job at once you will be able to stop Mr. McLean from securing a single order in your territory." (Exhibit 244)

C. B. Nickerson, in a letter of November 14, 1932, to E. P. Miller, recounted the argument he had used to dissuade one firm from making a purchase of Canada matches :

"You might be rather surprised to know that our good friend Mr. Pottruff, from his conversation, appeared to be very much interested in these 300s, as he was quoted a price of \$7.45 delivered Winnipeg based on a 3 car contract for January and February delivery. Mr. Pottruff was under the impression that he could take these matches and go out the first part of the year and sell that quantity and thereby make himself some money. He claimed that owing to the small profit on matches today it was hardly worth his while trying to sell any. It was then necessary for me to take Mr. Pottruff to task, and I pointed out very clearly and definitely that we would not for a moment allow him to purchase any of these matches and get away with it, and most certainly we did not intend to relinquish any match business to the extent of three cars. I pointed out that he could not get the service from such a small company, and that he was now enjoying the happy knowledge that he was buying his matches on the lowest possible market, and that if he should purchase any of these matches it was quite possible that all the friendly dealings he had had and generous treatment accorded him by the Eddy Match Co. would be a thing of the past."

(Exhibit 172)

In his reply of November 18, E. P. Miller wrote to C. B. Nickerson :

"With reference to the \$7.45 price quoted to Mr. Pottruff on Canada #3 matches; I also received a letter from Mr. Pottruff about this and you will note that I have written him to-day in answer to his letter.

I am very glad that he did not buy any Canada matches, and there certainly is no reason why he should do so. As you pointed out to him that we would not allow him to buy any of these competitive matches and get away with the sale of them without doing something to protect our business, I did not tell him this again in my letter, but I think that Mr. Pottruff pretty well knows that he could not sell matches in any volume unless he sells Eddy's matches." (Exhibit 174)

The close watch which Eddy Match endeavoured to keep on activities of Canada Match is indicated in a letter of C. B. Nickerson describing the advice which he gave to a salesman of Tees & Persse Limited. He wrote to E. P. Miller on November 16, 1932 :

"... I took Mr. Fraser and incidentally gave him a chat along the lines which I felt were very important, i.e. always bear in mind that orders are most essential but we must not overlook the very important fact that we must always be on the lookout for something that might ultimately cut down our volume, and in order to forestall this we would always have to have the information before a jobber had committed himself, for if by any chance a jobber or jobbers had purchased opposition Brand it might mean that the Eddy Match Company would have to lower the cost of their Brand in order to clean up a situation that might very easily have been stopped before it began." (Exhibit 280)

2. Ontario and Quebec

The policy of giving special prices on Blue Ribbon brand of matches which Eddy Match had used to meet competition of Columbia matches was apparently followed in some instances when Canada matches were on the market. On July 12, 1932, E. P. Miller wrote in response to an enquiry from The Williams Chemical Co., Ltd., Russell, Ontario :

"In reply to your Post Card, the price of our BLUE RIBBON brand of matches is \$12.91 per case, less usual jobbing discounts to the jobbing trade. We are, however, using this brand of matches as a protection for our business against cut prices being quoted by other manufacturers of matches, and to our regular customers, we are giving special prices in consideration of quantities purchased at one time to be taken in one delivery." (Exhibit 223)

While Eddy Match quoted low prices at times on its unlisted brands, it was anxious that such reductions in price should not operate to cause any substantial diversion of business from its higher-price, listed brands. This concern is indicated in letters exchanged between S. Oliver of Eddy's Toronto office and E. P. Miller in regard to orders booked by two wholesalers at reduced prices, one of whom apparently had not sufficient low-price matches to fill his orders. S. Oliver wrote on July 18, 1932 :

"We do not know how many matches McLean sold, tho Mr. McNally is getting us this information, but in the meantime, McLean has sent McNally an order for 250 cases, and McNally wants us to give McLean the privilege of a once over sale of his territory on the same basis, but we told him the best we could do, would be to protect him in matches he had to sell on the \$8.75 basis." (1) (Exhibit 280)

E. P. Miller's reply of July 19 suggests that Eddy had withdrawn a special price by this time :

"In reply to your letter of July 18th the best we can do for Mr. McLean of National Grocers at Pembroke, is to take care of the orders that he has booked at the low price he has quoted in order to protect himself against the low price of Freedman.

I think that Mike is in considerable trouble for the reason that he did not buy sufficient matches to cover his requirements and he is away oversold. What we must do immediately is to stop the sale to the retail trade at these low prices, and if we give National Grocers of Pembroke sufficient matches to cover what they have sold, it is all that we can do, as to give them any quantity would simply be continuing to give the low price to the retailer, which we cannot afford to do." (Exhibit 280)

Canada Match was informed of the prices at which Eddy matches were being offered at this time in a letter dated July 16, 1932, from a wholesale grocer in Kingston :

"Please ship to us here —

25 Cases Canada Matches

at best possible price, as we have had our trade circularized this week offering Blue Ribbon at 8.75 FOB Ottawa." (Exhibit 35)

Gamble-Robinson Limited, wholesale grocers with branches in Northern and Eastern Ontario, wrote to Canada Match on July 30, 1932, reporting an unsuccessful effort to sell a carload of Canada matches in Fort William :

"In tracing Fort William on the Match deal he replies this morning that he had the car all lined up when Eddy wired their representatives quoting \$9.25 delivered for Blue Ribbon, \$7.80 for Sesqui. Apparently one of the wholesalers reported the negotiations to Eddys and they apparently are determined to hold that market.

You, of course, appreciate that Eddy's products have been sold exclusively up there for a long time and it's a little difficult to break in with a new brand." (Exhibit 37)

Canada Match pursued a policy of keeping its price below that of Eddy's listed brands. On July 30, 1932, it wrote to a firm in Cornwall, Ontario :

(1) The list price on Eddy's standard brands of 4's at this time was \$12.91 and the net jobbers cost after discounts, \$10.54.

"Replying to yours of July 29th., we are advising you that we have not changed our prices on matches.

We understand the Eddy's Blue Ribbon were sold at a very low price two weeks ago, but that cut was only for one week.

We have been asked for rebate on floor stock, and have refused to issue a credit note in connection with that decline.

You will note that it is impossible for you to buy Eddy's matches today below \$10.26 net per case. We think our price at \$9.40 is very reasonable." (Exhibit 38)

A letter of August 3, 1932 from Eddy Match to a firm in Ottawa, Ontario, also suggests that a special offer had been withdrawn. The letter stated :

"RE : — BLUE RIBBON MATCHES

We acknowledge receipt of your letter of the 1st instant requesting that we supply you with a further lot of 25 cases of BLUE RIBBON brand of matches at the temporarily reduced special price of \$8.35 net for a short time recently effective.

Our manager, Mr. Miller, has allowed us to ship to you at this special price (now withdrawn) 10 cases which will leave our Pembroke factory to-morrow, the 4th." (Exhibit 223)

A renewal of active price competition is suggested in a letter of September 13, 1932 from Gamble-Robinson Limited to Canada Match :

"Eddy's are in the territory with a price of \$8.75 on their North Star Brand which, we presume, means that there is something of a battle on in the Match business.

Will you kindly advise whether you wish to sit tight at present prices or arrange to meet competition." (Exhibit 39)

Canada Match replied on September 15 :

"In reply to yours of Sept. 13th., in connection with Eddy's North Star Brand offered by small quantities to some Wholesalers in Ontario, we may say that this cut will not last very long.

We do not intend to change our prices as the matches we are now manufacturing are of a better quality than those made by Eddy's.

You will agree with us if we meet present competition, there will be some other cut, and then, their dream will be realized by forcing us to close our doors.

However, we would like to have an interview with you in order to discuss this matter when you come down to Ottawa." (Exhibit 40)

S. Oliver of Eddy's Toronto Sales Branch referred to competition of Canada matches in a letter of September 13, 1932 to E. P. Miller :

"From the expressions received from some of the small jobbers here who have been handling Canada Matches, we are of the opinion that we could stop them from buying any Canadas, provided we are in a position to supply them with North Star, even should Canadas be offered at \$8.75. This of course will accentuate the competition on our own Brand, and it may be that you would prefer to let the Canadas be sold if at \$8.75; though at the moment we are doubtful if any other jobber outside of Armstrong's connection has actually been sold Canadas at that figure." (Exhibit 223)

In his reply of September 14 E. P. Miller indicated that he did not think that North Star matches should be offered generally :

"I have your letter of September 13th with regard to the small jobbers who have been handling Canada matches.

As it is quite evident that the Canada Match Company are not offering matches at \$8.75 to anybody but Armstrong, there would be nothing to gain by offering to sell these small jobbers quantities of North Star, and as long as the Canada Match Company cannot sell them at a higher price than \$8.75, and even if they sell them at this price, these small jobbers will have trouble in disposing of them, and I think the best thing to do is to keep the North Star away from such small jobbers as have been selling Canada matches, at least for the present.

We shall be able to give you 2500 cases of North Star matches this month and if necessary, shall be able to give you the same quantity next month; therefore, I think it a good idea for you to plan for the distribution of these 2500 cases in small quantities and spread over as much as possible, so that all jobbers are in a position to meet the small competition they will have from Canada matches. I estimate that this is five times as many matches

as the Canada Match Company will sell in Ontario, and even if they sell more than this estimate, it will not be profitable business.

I think we are safe in guaranteeing that as long as sales do not run over 2500 cases per month, we shall be able to supply the matches fairly promptly." (Exhibit 223)

North Star brand of matches was being used in Quebec by September, 1932 to meet competition from Canada matches. On September 15, 1932 Eddy Match sent the following telegram to a merchant at Rimouski, P.Q. :

"PRICE OF BLUE RIBBON MATCHES NOW FIFTY CENTS BELOW BUFFALO THAT IS TEN TWENTYSIX OR TEN DOLLARS AND FOUR CENTS CARLOAD SHIPPING YOU TWENTYFIVE CASES OF OUR NEW BRAND CALLED NORTH STAR WHICH WILL COST YOU EIGHT DOLLARS AND SEVENTYFIVE CENTS NET THIRTY DAYS THESE MATCHES ARE TO MEET LOW PRICED GOODS OFFERED BY OUR COMPETITION WIRE OUR EXPENSE IF YOU DO NOT WISH US TO SHIP NORTH STAR" (Exhibit 223)

In replying on September 21, 1932 to an inquiry from a firm at Chippawa, Ontario, E. P. Miller made the following comments on North Star matches :

"In reply to your enquiry of September 19th., we have been compelled, upon request from some of our jobbing friends, to put out a brand of matches called 'North Star' at a price of \$8.75 per case, net thirty days.

This brand is not our standard quality. It is, however, a good grade of match and had been supplied in order that our customers can protect themselves against competition of a lower grade of match being offered at cheap prices." (Exhibit 223)

Some distributors of Eddy matches felt that the sale of the North Star brand competed against higher-priced Eddy brands as well as against Canada matches. This view was expressed by Amos B. Gordon Company, distributor of Eddy's Pine Tree matches, in a letter of October 18, 1932 to E. P. Miller :

"We acknowledge your letter of the 17th October with enclosures, and note particulars as to what is going on in Hull at present. The day I was in Hull, October 6th, the plant was open and operating, but, of course, we do not know how long they were running each day.

In going over our sales on Pine Tree 4/144's Matches from May 1st to October 15th find we sold 1,388 cases at a profit of 2% or less out of total purchases during that period of 1,881 cases of 4/144's. These 4/144's we bought on basis of 24% discount and our sales show that we sold —

| | |
|-------|--------------------------|
| 1,158 | Cases at discount of 22% |
| 110 | " " " " 23% |
| 30 | " " " " 23½% |
| 90 | " " " " 24% |

1,388 Cases

Balance of approximately 500 cases of Pine Tree 4/144's went out at discounts from 18 to 21%, which no doubt you can understand is not even sufficient to show a reasonable profit.

Since North Star 4/144's came into prominence to date we have sold 533 cases made up as follows : —

| | | |
|-----|---------------|--------|
| 1 | Case at | \$9.75 |
| 44 | " " | 9.50 |
| 293 | " " | 9.25 |
| 164 | " " | 9.00 |
| 31 | " " less than | 9.00 |

533 Cases

From this you will see 80% of these show a profit less than 5% gross to us.

Every Jobber who could get North Stars evidently made a line for them and some of the Buying Chains list them at \$8.75 plus 3% which, of course, restricts anyone from getting a legitimate profit. We cannot see how it will be possible to carry on for any length of time on this basis, for as long as there is a cheap match, even though sales and distribution are supposed to be restricted, the distributor is penalized on either line insofar as getting a profit is concerned.

We understand our French friends are not meeting North Star prices in all cases, and believe to-day the competition against Eddy's other brands by North Star is becoming more pronounced and will be impossible to control before long.

Have you any suggestions to rectify this condition ?"

(Exhibit 280)

E. P. Miller made the following comment on the position of North Star matches in his reply of October 20 :

"With reference to the NORTH STAR brand; I cannot agree with you that this brand is going to run away with us, and as pointed out before, this is not possible because we are not going to supply enough North Star matches to allow this to happen, and from what observations I can make about the brand, I am forced to the opinion that the North Star is gradually filling the position we intended it should, that is, it is being used generally by jobbers to meet low priced competitive matches (of which there are very few) and I do not think it is going to work against our own brands because we will not allow it to do so." (Exhibit 223)

He expressed a somewhat similar view in a letter of November 5, 1932 to a firm at Quebec, P.Q. and also referred to the introduction of another competitive brand :

"We have your order for fifty cases of North Star matches, which we are unfortunately unable to fill, as we are over-sold on this brand and there will not be any more available for the present.

These matches were given to the trade to meet the competition of low priced goods being offered by our competition, but we wish to draw your attention to the fact that there are many times more of our regular brands being sold than of these low priced class B. matches. There are not enough of these cheaper matches being made to anywhere near supply the market. If you wish to get your share of the match business, do not forget to offer our other brands of matches.

We will shortly have another brand of class B. matches to offer you at a low price to meet the competition of any low priced goods offered." (Exhibit 223)

Information on the introduction of the new brand was sent to Canada Match by F. C. Armstrong & Co. of Toronto in a letter of November 4 :

"The opposition are featuring a new brand :

'BULLDOG' 4's at 8.75 C/S.

This is similar to NORTH STAR — red tip and in a red carton." (Exhibit 41)

The restricted and directed use which Eddy Match made of special brands is indicated in a letter of December 10, 1932 from E. P. Miller to Tees & Perse Limited, Fort William, Ontario :

"We have your letter of December 7th. with reference to BULL DOG brand of matches for Gamble-Robinson Limited.

This is a brand that we have sold to meet competitive matches in some of the other territories; however, we do not want to offer it in Fort William, and as far as we know, there surely is no need for us to do so.

If the manager of Gamble-Robinson Limited takes this up with you again, we would suggest that you explain this to him. As a matter of fact, it will probably be only a short time before we withdraw this brand from the other territories as well, but under no circumstances would we want to offer it for the present outside of the area where it has already been sold." (Exhibit 223)

A further report on the sale of matches at low prices by Eddy was made to Canada Match in a letter of November 29, 1932 from its agent at Windsor, Ontario. The letter stated :

"We received information over the telephone this afternoon that the Eddy Match Company were selling matches to Chain Stores, also to Dealers at \$8.25. We also understand that they are not selling these matches in carload lots. They are just giving their customers enough matches to keep them from time to time." (Exhibit 42)

Canada Match referred to reported sales of Bull Dog matches in a letter of December 13, 1932 to a firm in London, Ontario :

"In reply to yours of December 10th, we can quote you Canada matches at \$9.15 net per case. We understand Eddy Match are selling Bull Dog at \$8.25 net per case, but it is impossible to us to meet this price. We have been told that they are selling this brand only by small quantity at the time." (Exhibit 43)

Eddy Match offered North Star or Bull Dog matches at \$8.25 to a merchant at Chicoutimi, P.Q., in a telegram dated December 17, 1932 of which the following is a translation :

"To meet the price of our competition we offer North Star or Bull Dog matches, four hundred matches per box, one hundred and forty-four boxes, per case. The price is \$8.25 per case net 30 days." (Exhibit 223)

3. Maritime Provinces

Competition of Canada matches in the Maritime Provinces arose out of sales by Quebec jobbers in the bordering regions of New Brunswick as well as sales within the area. On October 21, 1932 G. E. Barbour Company, Limited, wholesale grocers, Saint John, N.B., wrote to Eddy Match and quoted the following report on conditions at Edmundston :

"Re matches : — There is all kinds of competition. Canada Matches 400s were sold to the trade by Quebec jobbers as low as \$9.25 per case. (\$9.75 for single cases.) Eddy's Blue Ribbon 400s sold from \$9.75 to \$10.15 per case by Quebec Jobbers. I saw an invoice a few days ago at Grand Falls — The Eastern Hay & Feed Company's — five cases 400s Blue Ribbon Matches at \$10.26 plus 3% delivered. Anyway, we are not getting our share of the match business." (Exhibit 280)

Indication of special prices in the Maritime Provinces is given in a letter of November 4, 1932 from E. P. Miller to John Tobin & Company, Limited, Halifax, N.S., which contained the following :

"We are, of course, naturally very much pleased to notice that you have greatly increased your sales of our matches this year over last, and we regret that it was impossible for us to give you another car of matches at the same price and conditions as the last car which you purchased, but as pointed out to you in our telegram of October 24th., for us to have done this would have been giving a very large differential between the price at which you could buy these matches and the price which we were charging to all of our other customers, and I am sure you will agree that not only would this be poor policy for us, but would probably be an injustice to some of our other customers who are handling our matches exclusively.

In order to show our willingness to work with you one hundred percent and also our appreciation of the increased business you have given us, if you will place an order for a car of matches to be delivered immediately, we will give you the fifty cents per case rebate on what BLUE RIBBON matches you include in the car. We would ask, however, that you keep this matter strictly confidential between the writer and yourself, and would ask also that you do not allow this fifty cent rebate to reflect in your re-sale price, but take this as an extra profit, which we feel sure you will be willing to do. Will you please advise the writer under personal cover if this is acceptable to you and if so, place your order in the regular way." (Exhibit 280)

A further report on competition of Canada matches was sent to Eddy by Schofield & Beer of Saint John, N.B., on November 8, 1932 :

"Kindly note we are having some more trouble in Campbellton district with Canada Matches. Also, this morning Jones, Schofield, Hatheway Ltd., told us that their Yarmouth manager reports today that Canada Match Co., have made a couple of small sales in Yarmouth at \$9.50 net delivered Yarmouth. It is kind of upsetting conditions around, this very low price." (Exhibit 280)

E. P. Miller suggested the following policy to meet the situation in a letter to Schofield & Beer dated November 12 :

"I do not think that the Canada Match Company is a factor in the Maritime market, and I certainly feel that it would be a mistake to start cutting prices and disrupting the market simply because there are a few cases sold at low prices, as my idea is that the jobbers in New Brunswick are much better off as far as profit is concerned than the jobbers in Quebec, and this is borne out by the ridiculous prices which apparently are quoted by some of the Quebec jobbers and would certainly mean that they are sacrificing profit.

As far as the Edmundston branch of Barbour & Company is concerned, we can give them a small quantity of matches at a low price, providing they will use them judiciously against the small competition which we know they must have at low prices, and we know this

because we have not sold any quantity of matches at low prices in the Province of Quebec, so that the quantity delivered to the retail trade by Quebec jobbers has got to be very very small, however, if Mr. Barbour feels he needs a few cases (we could not give him more than 25 cases) we could give him BULL DOG brand in this quantity, so that we know the Edmundston branch would be able to take care of any competitive quotations made by outside jobbers. We could not possibly, however, supply a quantity so that they could go out and make a campaign, and we might say right here that we believe the trouble is about quotations made rather than sales made.

You can tell Mr. Barbour that we feel we have this situation pretty well in hand and we are controlling the distribution of the Bull Dog brand to such great extent that there can be no quantity delivered by any one jobber.

If you will let us know as soon as possible, we will arrange to make a shipment of 25 cases of Bull Dog if they want them at Edmundston, but we would not ship them to any other point in New Brunswick." (Exhibit 223)

This letter was followed by one dated November 19, directly to G. E. Barbour Company, Limited in which E. P. Miller stated that 25 cases of Bull Dog matches were being shipped to Edmundston :

"We are shipping 25 cases of BULL DOG brand to your Edmundston branch. These will be invoiced at a net price of \$8.75, and if Mr. Stroupe will use them judiciously, he will be able to combat competition from other jobbers, either on this brand or on a competitive brand of matches, as we are not delivering to any jobber more than 25 cases of this brand at the \$8.75 price at one time and it is working out very satisfactorily. The jobbers who are protecting their business against the small competition with the Bull Dog brand are selling the volume of their matches on our regular EDDY brands with a good profit in most cases, although I must say that I have never seen a time when Wholesalers generally from Coast to Coast were in such a frame of mind as they are to-day when everyone is trying to undersell his competitor; however, I have seen evidence lately in various territories, where the jobbers have come to the realization that they cannot sell merchandise at two and three percent profit and make both ends meet, and I am hoping that there will be an improvement in the jobbers' profit all over Canada, but I think that you in your territory, are possibly getting better profits than some others that I might mention, and I think it would be a shame to see you sacrifice any of your profit, as I do not think it is necessary on matches at the present time."

(Exhibit 223)

Conditions from the view-point of the sale of Canada matches were reviewed in a letter of January 19, 1933 from National Woodenware Company of St. Thomas, Ontario, to Canada Match :

"We just received a letter from our Maritime Province representative, Mr. Chapman, stating that the Eddy Match Co. is now cutting prices on the Blue Ribbon brand so that our present cost is not sufficiently low to enable him to get the orders. He also states that if he had the right price he could sell all the smaller jobbers and in that way increase the turnover of your line in the Maritime Provinces. Mr. Chapman is an exceptionally able salesman and if you can make a proposition whereby we can get the jobbing orders and make a price to meet present competition on Eddy's Blue Ribbon in the Maritimes, it will get matters in line for the spring trade. We wrote Mr. Armstrong in reference to this yesterday but do not know whether he will be interested. In Ontario we find the Eddy Match Co. is very active at present marketing the Bull Dog brand which cost the jobber only \$8.25 per case in drop shipments of 5 case lots, terms 30 days. Practically every grocer is buying these at present. You know best of course what you can do to meet the situation. We have not seen the Bull Dog package so do not know anything about its quality but apparently the Eddy Match Co. is endeavouring to get back a good portion of the trade which your line has recently had in Ontario and are taking this method to do so. We would be pleased to have you advise us as soon as possible as our Mr. Chapman is now ready to commence his spring campaign and our Ontario travellers are not booking any Canada matches at present owing to the Bull Dog situation."

(Exhibit 45)

4. *Negotiations for Purchase of Canada Match Company*

A disastrous fire, involving loss of life, occurred at Canada's factory in Hull on March 15, 1933. Extensive damage was caused to the plant and it was not until June of the same year that a match machine had been built and put into operation.

For a time after Canada Match resumed production in 1933 competition does not appear to have been as intense as in the preceding period. The efforts of jobbers in Eastern Canada to have manufacturers establish a minimum margin on the resale of matches were favourably received by Canada Match as well as by Eddy Match and Commonwealth. As will be described more fully in a later section, the three manufacturers, in April, 1934, announced similar policies with respect to the maintenance of resale prices. While arrangements soon broke down in Quebec, the introduction of stronger resale price maintenance control by Eddy Match in the Maritime Provinces and Western Canada early in 1935 made it more difficult for Canada Match to follow an independent pricing policy in those areas.

In the latter part of 1934 efforts were made by Eddy Match to purchase the outstanding shares of Canada Match. The former company did not appear directly in the negotiations, the ostensible principal being W. A. Becker, who was at that time a nominee shareholder in Commonwealth as well as being a director and employee of that company.

In a statement headed "Eddy Match Company, Limited. Investment in Subsidiary Company's Shares and Advance to Subsidiary Company", found in the records of Eddy Match at Pembroke, Ontario, the following appears :

"1934

| | | |
|---------|--|--------------|
| Dec. 19 | Payment to Diamond Match Co. for purpose of purchase of capital stock of Canada Match Company Limited. | \$115,000.00 |
| | (Above amount included as Investment Suspende in Dec. 31/34 certified accounts) | |

1935

| | | | |
|-------|--|-----------|-------------|
| May 6 | Portion of above funds returned. | 64,634.69 | \$50,365.31 |
| | (Amount of \$50,365.31 included as Accounts Receivable in Dec. 31/35 certified accounts)". | | |

(Exhibit 83)

The amount of \$115,000 was apparently transferred to W. A. Becker and between December 20 and 28, 1934 he purchased or obtained options on 313 shares of Canada Match stock from twelve of the shareholders, including J. W. Charette, president of the company. As indicated in the above statement the cost of these shares, including expenses in connection with the purchases or options obtained, amounted to \$50,365.31. According to the share register of Canada Match these shares were not registered in the names of either Eddy Match or W. A. Becker. On January 15, 1935, however, the share register shows that 310 shares were registered in the name of a solicitor in Hull, P.Q. This solicitor had previously owned one share, which was one of the 313 shares purchased by W. A. Becker, but its registration was continued in the name of this solicitor. On the same date two shares were registered in the names of two of the shareholders who had sold their shares to Becker. There can be no doubt that these persons were acting as nominees of Eddy Match.

At the time negotiations were being conducted by Mr. Becker for purchase of these shares, 620 shares of Canada Match stock had been issued. The acquisition of 313 shares on behalf of Eddy Match would, accordingly, have given it control of the company. About this time however, additional shares were issued by the company to individuals who had not previously been shareholders, with the result that at the time the shares were registered in the names of the Eddy Match nominees that company did not control 50 per cent of the issued stock.

In the following months the subscribed capital of Canada Match was increased through the issuance of additional shares and there was a substantial change in the officers and directors of the company. J. W. Charette, the original president,

resigned in the latter part of 1934, about the time of the sale of his shares in the company to Becker. The company continued to operate as an independent till early in 1936.

In his oral examination E. P. Miller of Eddy Match was asked if he had any knowledge of a contract between Charette and Becker under which the former was to receive certain payments. Mr. Miller replied :

"A. No, sir, not to my absolute knowledge, but Mr. Charette mentioned many times that he did have.

Q. That he had a claim against Becker ?

A. Yes, that he had some claim that was, I believe, personal. I did not know."

(Evidence, p. 654)

A letter dated August 6, 1935 from W. W. Howe, auditor of Diamond Match, to Philip B. Keyes in his capacity as treasurer of Commonwealth was found in the files of Commonwealth. It reads in part as follows :

"... Beginning with the month of August, you will please *pay in cash* Charette and Lebel \$150.00 each per month. The William Gordon Corporation will send you each month, in reimbursement, a check for \$300.00.

If, in any month, you do not receive check from William Gordon Corporation, due to temporary delay on account of inability to get signatures, please obtain the needed cash from Commonwealth, as a personal advance, and make payment to the two men in question, regularly and consistently each month.

In the event that it becomes necessary for you to obtain these funds from Commonwealth, that company will be reimbursed by the William Gordon Corporation." (Exhibit 90)

Mr. Lebel had been an employee of Canada Match and The William Gordon Corporation was a personal holding corporation of which the capital stock was held by trustees of two irrevocable trusts, the beneficiaries being the sons and grandchildren of W. A. Fairburn.

In his oral examination with respect to this letter Mr. Keyes stated that he did not know what these payments to Charette and Lebel were for nor did he remember how long they continued. (Evidence, pp. 720-1)

5. Acquisition of Canada Match

The situation in 1935 was that Eddy Match had a substantial minority interest in Canada Match, but the latter continued as a competitor under independent management. During the year W. A. Becker left Commonwealth Match and E. P. Miller, general sales manager of Eddy Match, became the active agent in attempting to acquire the balance of Canada Match shares held by individuals. This attempt was successful and early in 1936 complete control of the company was obtained by Eddy Match. In referring to the negotiations E. P. Miller said that he was acting under instructions of T. J. Reynolds, vice-president and general sales manager of Diamond Match. (Evidence, p. 570)

At the time these negotiations took place 1039 shares of Canada Match stock had been issued. Of these, 313 shares had been acquired by W. A. Becker in the manner related in the preceding section, and were held by nominees of Eddy Match, leaving 726 shares held independently. Following the negotiations conducted by Mr. Miller, the holders of 701 shares executed a pooling agreement and in January 1936 entered into an agreement to sell their shares to E. P. Miller or his nominee for \$225 per share. This agreement also provided that upon delivery of the shares to Mr. Miller those of the signatories who were directors of the company would enter into an agreement with Mr. Miller under which they would undertake not to become engaged, either directly or indirectly, in the match manufacturing business in Canada for a period of twenty years. In his evidence Mr. Miller

stated that he thought such an agreement was subsequently entered into by the directors. (Evidence, p. 573)

Arrangements by way of option to purchase or otherwise were made with respect to the remaining 25 shares.

The effective date of the purchase of these 726 shares was January 14, 1936. The method by which payment was made was recapitulated by E. P. Miller in his letter of February 7, 1938 to B. C. Snead as follows :

"I have the cancelled cheques which were made out payable to each of the stock-holders of the Canada Match Company Limited for the payment of their shares of Canada Match Company Limited stock, which I purchased from them on January 14th, 1936. These cheques were made out payable to the individual stock-holders, were taken to the Royal Bank of Canada in Ottawa, and they issued cheques in like amounts payable to these same parties, and my cheques bear the following bank endorsement 'Manager's cheque number . . . issued by the Royal Bank of Canada in favour of the within-named payee.'" (Exhibit 287)

E. P. Miller went on to point out that the shares had been purchased at a total cost of \$163,350 or \$225 per share. The funds for this purchase were supplied by Eddy, as indicated in the statement headed "Eddy Match Company, Limited. Investment in Subsidiary Company's Shares and Advance To Subsidiary Company", previously referred to, which included the following :

"1936

Jan. 13 Cheque to E. P. Miller for purchase of capital stock of Canada Match Co. Ltd. \$175,000.00

Oct. 23 Portion of funds returned as not required 11,650.00 163,350.00" (Exhibit 83)

Of the shares acquired through W. A. Becker, 311 had been purchased for \$160 each and the remaining two at \$162.50 each. As previously mentioned, the cost of acquisition of these shares, including expenses, amounted to \$50,365.31, so that the total cost of the 1039 shares to Eddy was \$213,715.31.

Shortly after the acquisition of the 726 shares by Mr. Miller all issued shares were registered in the names of nominees of Eddy.

The result of this purchase by Eddy Match was that all the manufacture of wooden matches in Canada was again brought under the control of one group, so that there would be no effective competition in this market unless an independent company could establish itself in the face of the superior financial strength of Eddy and its associated companies. In each case such control was obtained by purchase of the assets or issued stock of a competitor. In the case of Columbia Match the assets were acquired after bankruptcy. Canada Match was in a liquid position, having shown a profit in every year with the exception of the fiscal year ending with the first nine months of its existence.

Mr. Miller stated that he had presumably recommended the purchase of Canada Match. His evidence with respect to the reasons for the purchase is in part as follows :

"Q. Why did you consider it necessary or desirable to purchase Canada Match Company ?

A. So that they would not be putting that inferior grade of matches on the market.

Q. Was there any desire to get rid of the competition of Canada Match Company ?

A. Well, I would think that any business man would want to get all the business that he could, and that was my object as sales manager, to get as much business as we could get; but, personally, I was particularly interested in taking off the market the poor quality matches."

(Evidence, pp. 571-2)

Throughout its history as a subsidiary of Eddy Match, the management of Canada Match has been under E. P. Miller, who has in turn been responsible to the same senior authority as in his position with Eddy.

Shortly after Canada Match was acquired Eddy Match replaced the officers and directors by its own nominees. About the same time an advance of \$50,000 for purposes of working capital was made by Eddy Match to Canada Match through E. P. Miller. In May and June 1936 the number of directors was reduced from five to three and the company was converted from a public to a private one.

In December 1937 it was decided to value the investment in Canada Match at \$103,900, the amount at which the issued shares were shown on the balance sheet of Canada Match at the time of its acquisition. This necessitated the write-off of \$109,815.31 from the purchase price of \$213,715.31. At about the same time steps were taken to incorporate a separate company to hold the shares of Canada Match which Eddy Match had purchased. This was Valcourt Company Limited, which was incorporated as a private company under Dominion Letters Patent issued on December 17, 1937.

The Valcourt Company was authorized to purchase 1039 shares of Canada Match stock from Eddy Match for \$103,900. This was to be paid for by the issuance of 1039 shares of Valcourt to Eddy Match. The advance of \$50,000 for working capital which Eddy Match had made to Canada Match in 1936 was formalized by a loan of this amount by Eddy Match to Valcourt, which in turn made a loan to Canada Match. Subsequently, in February, 1938, this indebtedness was discharged by the issuance of 500 shares of Canada Match stock to Valcourt and 500 shares of Valcourt stock to Eddy Match. Between December 30, 1937, and February 4, 1947, all issued shares of Valcourt were held by three employees of Eddy Match as its nominees. On the latter date all issued shares, with the exception of three shares retained as qualifying shares by the employee nominees, were transferred to Eddy Match by resolution of the Board of Directors. The issued shares of Canada Match were in turn held by nominees of Valcourt until September 23, 1947, when 1536 shares were registered in Valcourt's name; the remaining three shares have been held by its nominees who were officers and directors of the company.

VI. ENTRY OF FEDERAL MATCH AND SUBSEQUENT ACQUISITION BY EDDY MATCH IN 1940

Eddy's acquisition of Canada Match in January, 1936 again brought all the manufacture of wooden matches in Canada under the control of Bryant & May and Diamond Match. This condition was altered by the formation of Federal Match Limited, which was organized to establish another match factory in Hull, P.Q. Federal Match Limited was incorporated under Dominion Letters Patent dated March 21, 1936. The president of the company and one of the principal figures in its organization and management was J. W. Charette, who had held the same position with Canada Match before he sold his shares to W. A. Becker and withdrew from its management. Charette's re-entry into the match business followed shortly after Becker's withdrawal from the active management of Commonwealth, through which company, as has been mentioned, certain payments had been made to Charette. None of the shareholders of Federal Match had been directors of Canada Match at the time control of it was finally acquired by Eddy Match, but three, besides Charette, had held shares in Canada and had sold them to Becker.

1. Surveillance of Federal's Activities by Eddy Match

By the fall of 1936, Federal Match was in active competition with Eddy. The policies pursued by the respective parties were in many respects similar to those followed during the period when Charette was president of Canada Match. Not only had the new company to meet the competition of Eddy's own brands but Eddy now had control of Canada Match. In addition, the sales policies of Eddy and Commonwealth appear to have been much more closely co-ordinated than in the earlier period.

As in the earlier period of competition with Canada Match, Eddy Match closely watched the activities of Federal. The fact that Federal's factory was located in the same city as that of Canada Match was taken advantage of in observing Federal's activities. Commencing in 1936, E. J. Molyneux, then employed on engineering work at Canada Match, sent frequent reports, sometimes daily, containing information about Federal's activities. The rate of production at Federal's factory, the quality of the product and destination of shipments were matters frequently dealt with in such reports. For example, a report dated September 11, 1936 contained the following :

"Mr. Halliday : Please relay to Mr. Miller the following : —

Mr Charette returned from Toronto last night (Thursday), where he evidently has been all week, at least in that vicinity.

We have been told that he secured an order for 25 cases Federal brand from Individual Tea Bag Co., and we were informed that shipment of this order was made today. We observed a truck taking away a small lot of cases from the factory this a.m.

We have been advised that up to date they have made twelve shipments."

(Exhibit 252)

Eddy Match used its sales representatives and other sources in an effort to trace shipments of Federal matches and to determine the kinds of matches which were being sold. On October 19, 1936 J. A. Guimond of Canada Match sent the following report to E. P. Miller :

"I have been told today that the car of matches shipped by Federal Match was billed to F. G. Spencer, 64 Ankerville Street, Sydney, N.S. for the account of National Woodenware."

(Exhibit 252)

The following day E. P. Miller wrote to Pyke Bros. Limited, Halifax :

"We also have information that a car of matches from the Federal Match Company was shipped to some point in Nova Scotia on Friday of last week. We do not know the point of shipment, but it may be either to R. MacGregor & Sons of New Glasgow or to

Sydney, Cape Breton Island. We are particularly anxious to find out where this car of matches lands, and will appreciate you going into this matter and advising us, if possible, if you can locate this car,..."

He added the following postscript :

"P. S. I have just learned confidentially, that the car of matches was shipped to F. G. Spencer, 64 Awkville [sic] Street, Sydney, N.S. for the account of the National Woodenware Company." (Exhibit 254)

The close watch on Federal's activities was kept up during the years of Charette's management. On December 7, 1937, E. P. Miller wrote C. B. Nickerson :

"I received your wire from Edmonton advising that you had received word from Mr. Reddin that he had been advised that 450 cases, supposedly of the 2 for 5¢ matches shipped in the car of Federal are Coronation, and that only 50 cases of the 2 for 5¢ size were in this car." (Exhibit 253)

A practice was sometimes followed of referring to Federal Match under the designation "Fox". The following quotation from a letter of February 24, 1939 from E. P. Miller to C. B. Nickerson illustrates this practice as well as the continued check on Federal business :

"I have your letter of February 20th concerning the assortment contained in Fox car #204043. Evidently the Blue Bird matches contained in this car are of the large size box as your territory is the only one that they have shipped any Blue Bird. The others are of the smaller size like the Red Bird which they have sold in other territories.

I do not know how we got the information incorrect about the car going to Winnipeg, but it was afterwards corrected and, of course, we all know now it went to Vancouver.

I am a little surprised that there were no Leader brand of matches in the car, because I re-checked this and the information was that some of this brand was on a truck that went to the car. Where they went to we have not been able to find out." (Exhibit 224)

Information secured was generally relayed to an Eddy representative in whatever area the shipment was thought to be going. On April 25, 1939, E. P. Miller wrote to C. B. Nickerson :

"I wired you yesterday that FOX had shipped C. P. Car #174112, and while we do not know where this car went except that it went to the West, we presume it was shipped to Vancouver, but as yet we have been unable to verify this." (Exhibit 280)

Eddy Match maintained the close surveillance of its small competitor so as to make sales by Federal Match more difficult. When Eddy Match could find out the destinations of Federal shipments it could by introducing fighting brands, changing its sales policies or those of its subsidiary, Canada Match, or by using its influence with jobbers, place formidable obstacles in the way of Federal Match expanding its sales or getting repeat orders.

2. Active Competition of Federal Match with Eddy Group

Federal Match managed to surmount the handicaps of its position and to produce and sell matches in competition with Eddy Match and its associated companies. Its methods of selling had to be adapted to meet the circumstances of a new and small manufacturer facing a well-established and much larger competitor. In its efforts to make sales its prices were generally lower than those named by Eddy Match on its listed brands, but it is difficult to determine the relationship at any particular time between Federal's prices and the prices of Eddy's fighting brands or the prices of Canada Match and Commonwealth Match. Federal Match used all avenues of distribution open to it. It made sales through brokers and to jobbers willing to handle its products. It also appears to have made sales directly to retailers. It is necessary, therefore, to have in mind in this period of Federal competition, whether the prices quoted related to sales by manufacturer to wholesaler, by manufacturer to retailer or by wholesaler to retailer.

In the fall of 1936, when Eddy Match received reports from the Maritime Provinces of Federal competition, it had had its resale price maintenance programme in the Maritime and Western Provinces in operation for over a year and could refer to its protection of the jobber's margin in seeking continued jobbers' support against the newcomer. This approach is indicated in a letter of October 5, 1936 from E. P. Miller to Pyke Bros. Limited, Halifax :

"While we, of course, will have to protect our business from competition should it become serious, at the present time with the small production and with the inferior quality of their matches, we could not consider substantially lowering our prices for the present. The prices quoted in the letter you received from Sydney are, we presume, prices to the retail trade. The price on the #3 size of \$9.34 less 2% and 2% nets \$8.97, and the price on 50 case lots of \$9.00 less 2% and 2% nets \$8.64.

With our maintained resale price of \$9.95, for anyone to go out and offer such prices as \$9.34 and \$9.00 less 2% and 2% either means that they have no confidence that their product can be sold at competitive prices or they are out to start a cut-throat competition.

We wonder what the attitude of the jobbing trade would be toward a competitor who came into the market with such cut-throat prices as these appear to be, and whether the jobbers would welcome such cut prices, especially in view of the fact that we have maintained a price policy which is being operated for the protection of the jobber's profit, and our price of \$9.95 shows the jobber a profit when he buys at the carload price, which nets him \$8.87 net, of [sic] 10-8/10%. If the jobbers are anxious to take on Federal matches, they certainly should demand from the company in order to protect their profit, a resale maintained price policy, and if the Federal Match Company does not want to put the same resale price on their matches as we are maintaining for our jobbers, they should at least demand that the Federal sell their matches at a price to the jobber that will give them an equal profit to the profit we are helping them to get by our maintained price policy.

.....
I think what we should find out first is whether or not the jobbers are going to support a match company who is apparently (if the prices quoted are correct) starting a cut-throat competition in the market, which, if supported, will mean that jobbers will lose their profit on ALL matches because they certainly should not expect us to maintain a price maintenance policy and hold the bag for them to sell competitive matches at a much lower percentage of profit than they obtain on our brands with our policy." (Exhibit 207)

The sale of Federal matches was also being actively promoted in New Brunswick and information as to comparative prices was given in a letter of October 17, 1936 from Schofield & Beer, Saint John, to Eddy :

"Referring to our phone conversation this morning.

Since talking to you, we got in touch with Mr. Edgett, and he told us that the net cost to the jobber for Federal Matches was \$8.58, which as you know, is approximately 30¢ less than your net cost, as we figure that yours cost \$8.87.

Mr. Edgett is of the same opinion as you are, that the jobber should absolutely refuse to stock, or even fill any orders for this Mr. Walker, who is canvassing the retail trade.

He told us though, that he knew of some sales that our friends Eastern had accepted, and that there had been one sale made by this Mr. Walker, of 35 cases through the Eastern to John Moss at River Hebert. We presume that this sale must have been at a cut price, even less than \$9.40. As we advised you, these matches were being offered the retail trade at 9.40, 5 case lots, 9.50 in single case lots. Mr. Edgett said he felt that in Moncton they would not make much profit, and he will endeavor to watch the situation as closely as possible, and advise us." (Exhibit 280)

More active efforts to meet Federal competition in Nova Scotia were taken by Eddy Match before the end of 1936. This is indicated by the following extract from a letter dated December 21, 1936 from E. P. Miller to F. T. Barbour, of G. E. Barbour Co. Limited, Saint John, who had previously written about sales of Federal matches in New Brunswick.

"... Do you think it would be good policy for you to have 'NORTH STAR' matches which we are selling to the jobbers in Nova Scotia to meet this competition of the National Woodenware Company ?" (Exhibit 280)

National Woodenware Company was reported to be distributing Federal matches

in the Maritime Provinces, and selling 5 and 25 case lots to retailers.

Eddy's dealers in New Brunswick were apparently reluctant to see the introduction of any Eddy brand which was not price-maintained, but E. P. Miller thought that they should be prepared to use a lower-priced brand against Federal competition. He wrote to F. T. Barbour on January 4, 1937 :

"Having enjoyed the benefits of maintained resale prices for some time, I appreciate, of course, that you do not like to see any matches sold without a resale price being established on any brand that might be offered. We are, however, in the position of having a desk jobber in the territory who is willing to sell matches at a much shorter profit than has been obtained by the local jobbers who have been distributing matches on an established resale price which has given them a profit of approximately 11% on their selling price : therefore, I cannot help but feel that the competition from a desk jobber who is willing to sell goods at a much shorter profit is to some extent a problem for the local jobbers, and I would think that, temporarily at least, if the shortening of this profit would stop and eliminate this desk jobber from selling goods in their territory, it should be considered by the local jobbers in New Brunswick.

With reference to your inquiry as to the experience in other territories, especially in the West where there is a list; there is no comparative case in the West. The Western jobbers will not resell other brands below our resale list and have steadfastly refused to give support to any manufacturer who attempts resale prices below our list, for the reason that they fear this will break down their satisfactory profit on our matches, which are sold in by far the largest volume.

.....

The Nova Scotia jobbers are selling North Star brand at open prices, which costs \$8.72 list less 2% carload discount, terms 2% 10 days, net 30 days or \$8.37 net cash, to hold their business against this competition, and we believe that they have done this effectively, but for the reason that the National Woodenware have not in the past sold successfully in New Brunswick, we withheld North Star brand from the New Brunswick market; however, reports would indicate that you should at least offer North Star brand to customers who have contracted at below resale for future delivery. It does not seem that it would be necessary to make an open offer on North Star matches, but if some way could be discovered to use this brand as a competitive brand directly against the competition of this desk jobber, it certainly would go a long way towards helping the local jobbers to protect themselves against this outside competition. In this way we hope you could protect your match business and continue the largest part of this business on regular brands, and shortly be in a position to discontinue the policy and again enjoy the position where your match business would be on brands with the satisfactory profit on the price policy you have enjoyed in the past."

(Exhibit 215)

In a letter of December 16, 1936, to E. P. Miller, F. T. Barbour enclosed a copy of a report received from one of his company's travellers that the Estey & Curtis Company, Fredericton, N.B., were selling Federal matches at \$9.25. On January 21, 1937, R. G. Schofield, Schofield & Beer, Saint John, wrote to E. P. Miller that he had got the Estey & Curtis Company to discontinue handling Federal matches. His letter contained the following :

"The writer spent yesterday in Fredericton, and had a long talk with the Estey & Curtis Co., and as a result, we got them to agree to discontinue handling Federal Matches, and they have put this in writing, copy of which we enclose herewith, as we are keeping the original here, and you can keep the copy for your own files.

We had a long talk with them, and did not make any threats as to what we would do if they continued to upset the market, but talked along the lines of co-operation, and feel that our trip was successful.

Messrs. Kitchen and Barbour in Fredericton are very much pleased with the result, and for once, some of the New Brunswick jobbers congratulated us on what we had done, as usually some of them do not appreciate anything you do for them, but we feel that we are making a good job of this, and hope it will continue, as we feel it will. This will clean up that section, and we hope that the Federal Matches will eventually die out here."

(Exhibit 208)

In January, 1937, C. B. Nickerson informed E. P. Miller that some attempts had been made to sell Federal matches in the Fort William district of Ontario. Nickerson wrote to Miller on January 26 :

"I wired you this morning to the effect that now the jobbers have a clear picture of the situation and they are not interested in any new brands." (Exhibit 233)

He stated later on in his letter :

"The situation here with regard to price maintenance is just about perfect and all the jobbers are desirous that it remain such."

In the same letter Nickerson referred to the possibility of bringing in some Commonwealth matches on which the resale basis had recently been set 50 cents lower than the price on Eddy brands :

"I believe, Mr. Miller, as a safety valve, it might be a good idea for us to have Commonwealth ship into this territory about 50 cases Luxor, these possibly could be brought along in our car and leave them on the floor in our warehouse so that in case a cheaper match would be necessary these could be sold to the trade, or if it is Commonwealth's desire it might be a goods [sic] idea for them to issue a circular to the Fort William jobbers on their true list of the Eastern prices which places the Commonwealth at an advantage over the Federal prices and it might be possible for them to secure a little volume of business out of this Fort William territory."

C. B. Nickerson explained the reason for the change in Commonwealth prices in a letter of January 29, 1937, to H. Graham, Tees & Persse Limited, Edmonton :

"Thinking that you might possibly have an enquiry from some of the Jobbers with reference to the new circular issued to the trade by the Commonwealth Match Company setting a new resale of 50¢ per case below Eddy's, thought best to drop you a few lines so that if any Jobbers should enquire you will be in a position to state definitely that the Eddy Match Company do not intend to meet this price."

As you are aware, the Commonwealth Match Company were not successful in securing any business to speak of in 1936 on the Eddy resale, therefore it was necessary the Eddy Match Company allow some concession in order to keep the market stabilized — hence the fact they had this 50¢ better resale." (Exhibit 231)

Competition from Federal household size packages of matches continued to be reported to Eddy. In a letter of October 27, 1937, to F. T. Barbour, Saint John, N.B., E. P. Miller referred to a reported 5 case sale of Federal matches to a retailer in the Maritimes at \$8.75 a case. He wrote :

"I really think the only way to handle this situation is to use the North Star brand as a 'fighting' brand, and in doing this, if you give a low price to your travellers it is just human nature for them to sell at the lowest price, even when it is not necessary."

The volume of these competitive matches in the territory, is without question very small when you consider the total volume, and the problem is to sacrifice as little as possible but to hold the business against a desk jobber like the National Woodenware Company, located in St. Thomas, Ontario, and who comes into your territory and sells goods at ridiculous prices and takes only 25¢ per case profit or even less, to further the sale of his woodenware products.

We have always refused to recognize the National Woodenware Company or allow them to sell in the Maritime Provinces any of our matches on which we prepay freight on 5 case shipments, but unfortunately, the Federal Match Company will do this for these people and with the short profit they take in comparison to what other distributors need and should have on matches, it makes a rather difficult situation, even though the volume is small.

With reference to the \$9.00 price extended to Nova Scotia; I think this should be done and also a further concession for 5-case buyers if you wish to do so, because the way I see the situation, this has got to be done in order to improve the situation and get it back to a point where you can get back to the nice profitable basis you had before this competition appeared and where you can be if this competition is not here."

(Exhibit 226)

Lower-priced Eddy matches were also made available to deal with competition in Western Canada. C. B. Nickerson wrote to H. T. Graham, Tees &

Persse Limited, Edmonton, on December 17, 1937, in regard to a reported shipment of Federal matches :

"I acknowledge, with thanks, your note of December 14th to the effect that 70 more cases of Federal matches arrived in Edmonton yesterday and all were distributed in the city. What I would like to have known as well, Harry, did you secure the distribution list, and if so, did you take it up with our jobbers and have them go out and quote North Star or Swan at \$9.00 per case ? as I feel sure that every one of these federal cases were sold at a higher price to these retailers and if our jobbers could contact the retailers that purchased these 70 cases, I feel sure that when they find Eddy's matches at a cheaper price they will refuse to accept drafts and return matches back to the warehouse."

(Exhibit 224)

In spite of Eddy's efforts to limit sales by Federal, the smaller company continued to seek business, as E. P. Miller admitted in a letter of November 26, 1937, to T. J. Reynolds, Diamond Match Company :

"In December 1936, Mr. Fairburn advised that he would see that I was paid a bonus of \$1200.00 for the year 1937...and that he would pay an additional bonus over the \$1200.00 if the Federal Match Company disappeared as a competitor during the year 1937.

I have not been able up to the present writing to fulfil all of these provisos, but from what I understand, profits of EDDY have been maintained, COMMONWEALTH has had their best profit year and should easily be able to pay their Bond interest and dividends on preferred stock and a further dividend if it was desired. CANADA has made a very fair return on the investment, and their profits will be substantially increased over previous year.

The request that Federal volume be kept below an average volume of 1500 cases per month, has not been accomplished, and it is quite evident that if this had been done, they would be out of business, as I doubt if anyone could maintain a Match plant in Canada with such a small volume of business."

(Exhibit 251)

3. Introduction of One-cent Boxes by Federal Match

Competition from a pocket-size box of Federal matches which retailed at one cent a box became a matter of concern to Eddy Match during 1937. Eddy's brands of pocket matches were commonly put up in boxes containing 50 matches which generally retailed at two boxes for 5 cents. The new box put out by Federal Match under the trade name Coronation was reported to contain 30 matches. On June 28, 1937, W. A. Fairburn wrote to H. A. Rudd, Eddy Match Company, Pembroke, Ontario :

"Will you please obtain from E. P. Miller, samples of Federal Match Company CORONATION brand, which I understand are selling for one cent per box; the box being a rather large size but carrying only a 30 count ?

As soon as you receive all the information which you desire in regard to this Federal brand, will you please make a very careful estimate of cost, giving the information to no one except me personally, and comparing the cost of reproducing the CORONATION brand at an Eddy factory compared with our regular No. O Pocket size ?" (Exhibit 101)

A reply to W. A. Fairburn, dated July 10, read :

"Referring to your letter of the 28th ultimo, acknowledged by me on July 2nd, we have gone very carefully into the cost of the 'Coronation' brand. We find that if this brand were made in an Eddy factory on the same basis as I understand Federal are using, i.e. making boxes, caddies, etc. by hand, the cost would be as follows :

| | | |
|---------------|---|-----------------------------------|
| Pembroke | — | \$4.84 |
| Berthierville | — | 5.60 |
| Consolidated | — | 5.22 all per case of 1,440 boxes. |

These costs include of course overhead of Eddy factories as at present in effect.

Costs of 10 Gross (1,440) No. O Pocket size for the six months ending June 30th, 1937, are as follows :

| | | |
|---------------|---|--------|
| Pembroke | — | \$3.57 |
| Berthierville | — | 5.04 |
| Consolidated | — | 4.16 |

Excise tax on a case of Sesqui (5 Gross) is \$2.70 or \$5.40 for ten gross. Tax on 10 gross of a 30 Count is \$2.70. In addition there is a sales tax of 8% calculated on the Gross selling price including excise tax." (Exhibit 100)

W. A. Fairburn asked for a further estimate on costs in a letter of July 14 to Mr. Rudd :

"With reference to yours of the 10th, I understand that the CORONATION type of match, made at Pembroke, would cost \$4.85 a case if made under the conditions that exist at Federal. This includes the substantial Eddy overhead.

Will you please advise what, in your opinion, the cost would be duplicating Federal methods, but also getting the benefit of Federal overhead, which can be approximated from the figures C.A.M. can get from *[sic]* you on Canada Match overhead?" (Exhibit 102)

Information that the Coronation brand of Federal matches was being sold in the Maritime Provinces led E. P. Miller to send the following inquiry to Pyke Bros. Limited on September 8, 1937 :

"We have your letter of September 3rd., advising that there seems to be quite a few of the Coronation matches on your market which are being sold by the wholesalers at a price of \$9.00 per 10-gross case, less 2% 10 days.

Do you really think there is any volume of these matches being sold? It hardly seems that this could be possible, as this 1¢ box of matches is being offered in other territories and we are reasonably certain that the total production of this box by the Federal Match Company is not sufficient to make any serious inroads into any one market; however, we are particularly interested in finding out whether or not you really feel that they are selling or have sold any volume of these matches in your territory."

(Exhibit 280)

On October 8, 1937, Pyke Bros. Limited wrote to E. P. Miller :

"With reference to Coronation matches. You ask if there is any volume of these matches being sold. For the most part our wholesalers have not broken away from us on these cent matches but a few of them have purchased a limited quantity. It is quite apparent that there is a very definite demand from a certain type of retailer who does not take into consideration the matter of profits and goes the way of least resistance and offers cent matches.

We have interviewed a number of our buyers in respect to this match and they seem to think that we should not wait until such time as the Coronation match gets on the market in a large way before we take some action to meet the situation. It is just a question of how long our friends Tobin and Payzant & King will let some of smaller wholesalers sell cent matches which they are unable to do unless they buy the same brands. We offered them Comets at \$5.25 but it was pretty generally agreed that this price makes the wholesale and retail profit so small that it would only help stimulate the sale of the Coronation brand if it was offered.

If Comet matches could be sold at \$5.00 a case they would then be retailed with sufficient margin of profit to offset the competition in so far as price is concerned."

(Exhibit 280)

The Little Comet brand of matches was classed as vest pocket size and had 25 matches to the box. Eddy's list price at this time showed Little Comet brand at \$5.76 per 5 gross case, less 2 per cent carload discount and 2 per cent 10 days, or a net cost to the wholesaler of \$5.53 for 5 gross or \$11.06 for 10 gross. The price of \$5.25 mentioned in the above letter indicated a significant reduction from list price. On October 13, 1937, however, E. P. Miller informed Pyke Bros. Limited that Eddy was prepared to supply 10 gross cases of Comet matches at a further substantial reduction in price. He wrote :

"From your estimate of the sale of these as 100 cases per month or over, I believe that we should place some of our distributors in a position to combat this competition. We could supply you with Little Comet matches in 10 gross cases at a list price of \$8.85 less the usual 2% carload discount on carload purchases or with other goods to make up a carload — terms 2% 10 days, net 30 days, and with a price like this on Comet matches in 10 gross cases, we think it would be successful in blocking the sales of competitive one cent matches. We have put some of these out in Toronto and Montreal and are sure we have been successful in stopping the sale of competitive one cent boxes, and under the circumstances we do not see anything to do but to offer these matches to the jobbers whom you think can combat this competition.

We, of course, do not want to change over the Pocket match business into a one cent box; however, if you could offer these to Tobin, J. L. Wilson, Hutton and Hobrecker as you suggest in your letter, we think this would be very effective against the one cent competition in the Halifax territory." (Exhibit 250)

In Western Canada, Eddy Match sought to prevent the sale of Coronation matches to the retail trade by making Little Comet matches available at a price which would permit jobbers to sell to retailers at \$1.00 per gross and retailers would then find it profitable to sell such matches at one cent per box. In a memorandum of September 14, 1937, E. P. Miller outlined the policy which he thought should be followed by C. B. Nickerson if Federal Match shipped a car to Vancouver :

"If this is done we want to prepare ourselves to prevent the sales of these matches in the Vancouver territory. We are considering packing the LITTLE COMET BOX of matches in a 10-gross case, and it was my idea that this box of matches would be offered to the retail trade at a price of \$1.00 per gross in Vancouver, which should seriously interfere with the distribution of any other one cent box in the territory." (Exhibit 250)

This policy was apparently put into operation at Vancouver, as E. P. Miller wrote to C. B. Nickerson on November 23, 1937 :

"When you get to Winnipeg, if you find that Federal Coronation one-cent boxes of matches are selling in that territory, I think we should immediately put on the Comet as we have done in Vancouver, placing a resale price of \$1.00 per gross. It is not so much the volume these people get as it is the fact that a small amount of business in Western Canada helps them to keep up their total volume of business, and we want to block them at every point possible." (Exhibit 250)

4. Continuance of Competition between Federal Match and Eddy Group

Canada matches were apparently used in the same way as Eddy's fighting brands when considered necessary to check Federal Match competition. Reference to such use of Canada matches is contained in a letter of November 4, 1938, from S. Oliver, of Eddy's Toronto sales branch, to E. P. Miller which dealt with a request for a rebate on stocks of North Star held by one of Eddy's customers. After setting out the request for a rebate, Mr. Oliver wrote :

"They hold that we have protected their floor stocks on previous drops in Canada prices and that to all intents and purposes the two brands are interchangeable insofar as their use has gone for checking competitions. That the North Star was given them instead of the Canada brand and that if they are to continue to force low prices on Federal they will require a cost price at their branches at least as low as the Federal quotation.

On the other hand we told them that a limited quantity of Canada at \$7.25 is available to meet any real competition existing and that we did not think their branches would need to alter their price on North Star until they were disposed of at as good a profit as they had been getting at least." (Exhibit 236)

Early in 1939, Schofield & Beer, Eddy's agents in New Brunswick, apparently considered that it might be possible to dispense with North Star matches. On January 16 they sent a telegram to Eddy which contained the following :

"Barbour Jones feel we should sell what North Star we have in stock here proportionately among trade cleaning them off the market not officially and if competition comes back you could put them on market again." (Exhibit 280)

While E. P. Miller replied "satisfactory clean out North Star", later correspondence indicates that the distribution of North Star was continued in New Brunswick as well as in Nova Scotia although the quantities supplied were limited. In a letter dated June 26, 1939, to F. T. Barbour, of G. E. Barbour Company, Saint John, N.B., E. P. Miller described the position of North Star matches as follows :

"Our position as far as North Star matches is concerned at the present time, is that we are not selling North Star matches to other jobbers except in quantities of 30 cases of North Star providing they purchase 100 cases of our regular brands. On this basis

there certainly should not be very many North Star matches that would interfere with sales of regular brands, because there is not a sufficient quantity of North Star in the territory, and no one jobber has had any quantity of them.

It was our hope that North Star matches would be used for your protection against sales of competitive matches, either direct or through some other jobber, as otherwise, free sale of North Star matches simply created price competition for you and ourselves, and it is, of course, ridiculous for us to sell quantities of North Star matches on which we are losing money to sell against our more profitable brands." (Exhibit 226)

A similar policy with respect to Nova Scotia was outlined by E. P. Miller in a letter of July 28, 1939, to Pyke Bros. Limited, Halifax :

"With regard to making a definite date on which the prices on North Star and Buffalo would be withdrawn; I fear this would be a mistake, because this would load the jobbers up, and I would be very much afraid that the jobbers would advance their price to the retailers, which is what we do not want until we accomplish our purpose, if we are to be successful in this campaign.

There is another point in the situation, and that is that if we have an opportunity to withdraw these low prices we shall do so without notice, but the way we feel to-day, the only thing that would influence us to withdraw these prices to the jobbers is for us to feel that we have competition blocked.

We are very pleased to note that the jobbers are supporting us by making low resale prices and that they are willing to give us this support and protect their match business to the retail trade, and I think the jobbers are wise in continuing this policy, because there does not appear to be any way for us to support the jobber with resale prices until such time as direct sales on the part of competition to retailers is eliminated." (Exhibit 238)

In Nova Scotia the maintenance of resale prices was apparently abandoned for a time in 1939, as Federal matches continued to be sold directly to retailers. E. P. Miller wrote to Michael Dwyer, John Tobin & Co. Limited, Halifax, on August 4, 1939 :

"I acknowledge your letter of August 1st and I am somewhat surprised at the circular sent out by R. MacGregor & Son quoting North Star matches at \$7.69 and Buffalo matches at \$8.59.

This certainly gives a very short profit but at the same time we have no policy that controls the resale prices today. We are hoping that these low prices that are in the market will result in our soon being able to get back our old basis of maintained resale prices so that these prices can be controlled to a profitable basis for the jobber but you know the situation today is that a competitive manufacturer is selling direct to retail customers and before we can get any order in the market on prices we must eliminate this direct selling on the part of match manufacturers and we have hopes that it will be possible to correct this situation so that we can have some definite resale prices that will be adhered to and this will be a much better situation but under the present conditions there is not very much to be done until the improved conditions come about." (Exhibit 238)

Although Eddy Match took active steps to make low-priced matches available in limited quantities on wholesale sales, it endeavoured to prevent any lowering in the level of retail prices which might have created pressure for a lowering in the price of its established brands of matches. In 1939 Pontiac matches made by Commonwealth were being distributed in Western Canada as a low price line. A report that Woodward's department store in Edmonton was offering Pontiac matches at a price below the established retail level led to immediate action by Eddy representatives to have retail prices maintained. H. T. Graham, Tees & Persse Limited, Edmonton, informed C. B. Nickerson in a letter of January 20, 1939, that his first efforts were unsuccessful :

"Woodwards have recently been featuring Pontiac Matches at twenty cents. This break in price was quickly brought to Bob Laing's attention, and told him of the danger he was creating in breaking the agreed minimum resale price on all matches, but he appeared impervious to any reasoning of mine and said he ought to be allowed to sell Pontiacs at twenty cents to offset Christie Grant's price on Federals.

When it was pointed out to him that no firm in town had had a case of Federal 3's in months and that he was only creating trouble and difficulty for all concerned, further

should you decide to pull the string and let the matches be sold retail at any price, he as well as others would be the losers. Further as he seemed definitely set in not co-operating, suggested to him that when such situation would be reported to you, you would feel the necessity of taking this matter up with Mr. Woodward to have prices maintained, but that did not seem to phase him.

Now, Alec Teal [Eatons] is on my neck, stating that he is about to buy Pontiac matches to meet this Woodward competition, but this he is not keen to do, though he wants something done about it as he realizes the ultimate will mean a loss for his and other firms. Now as Alec was insistent in going through with his thought, had him to hold his hand until you were contacted with as you were in Winnipeg now and my writing to you would bring a reply not later than Tuesday morning. This he said was okay.

Now it would look to me that probably the bringing of Commonwealth into line on your policy of maintained resale minimum price would solve the difficulty, but something has to be done to bring Woodward into line on this and it has to be done pretty quick.

Sorry to have to bother you on this, but my power of persuasion with Laing has not been able to bring the desired result." (Exhibit 203)

C. B. Nickerson, who was in Winnipeg at the time, replied on January 24 :

"Confirming our long distance call of last evening, at which time I advised you that I had got in touch with Commonwealth's agent here, and Mr. Ross Richardson night-lettered his broker in Edmonton to have Woodward's discontinued at once 3 for 20¢ matches. This morning I telephoned Mr. Richardson and he read the wire he sent on to Mr. Penn, therefore I feel that this matter will be thoroughly adjusted without delay." (Exhibit 203)

This action by Nickerson was apparently effective, as H. T. Graham wrote to him on January 26 as follows :

"Mr. Penn has just advised me that he visited Mr. Laing, who accepted the inevitable, that is to discontinue offering Pontiac Matches at less than 24¢. He however stipulated that he be allowed to return the Pontiac Matches which Mr. Penn agreed to accept.

It is quite possible that he being blocked in this matter may again revert to Federals and try to start something again, but think this can be well taken care of until your arrival." (Exhibit 203)

The fact that lower-priced Commonwealth matches were available to jobbers sometimes created difficulties even when no Federal matches were being distributed in a particular locality. L. E. Morgan, Tees & Persse, Calgary, wrote to C. B. Nickerson on March 4, 1939, that according to instructions he had shipped some Swan matches, a fighting brand, to a firm in Cranbrook, B.C., because Pontiac matches were on sale there. His letter contained the following postscript :

"I advised both Cameron & Sang & Scott Fruit that we were withdrawing Swan on a/c no Federal opposition and they were both agreeable to this. This as you know in Dec. when I was at Cranbrook and you wired me from Calgary." (Exhibit 280)

C. B. Nickerson replied as follows on March 7 :

"As I suspected in your letter of March 4th you advised that Cameron & Sang and the Scott Fruit Company had both purchased Pontiac which has forced us to ship in Swan matches. I am indeed sorry to note that this has been necessary as we were competing against Fox [Federal] and not Pontiac and I hope that in the near future there will be no Pontiac in that territory, for if Pontiac goes in we will certainly have to sell Swan." (Exhibit 280)

When sales of Federal matches were reported, Eddy attempted to check them by introducing a low-priced brand. C. B. Nickerson wrote to E. P. Miller from Saskatoon on January 30, 1939, as follows :

"This morning I was advised that Central Wholesale had purchased 400 cases Fox Bluebirds. Therefore it was necessary for us to allow Swan to be sold in competition." (Exhibit 224)

The policy to be followed in supplying Swan matches was indicated in a further letter of February 14 from Nickerson to Miller which contained the following :

"I thank you for your letter of February 11th dealing with the Swan situation and the necessity of lowering the price in Manitoba to \$8.00 and the regrettable necessity of having to put Swans in Northern Saskatchewan where there have never been any cheap matches. However, I am pleased to note that you agree it was necessary that these steps be taken in order to block the sale of these 400 c/s by Central Wholesale and at the time I warned every jobber, and also Manchee, to watch and see that too much attention is not paid to Swan, pointing out that the last thing we wanted was to sell any quantity." (Exhibit 224)

On receiving a report from Nickerson that there had been an increase in the sale of Swan matches following the reduction in price, E. P. Miller wrote to C. B. Nickerson on March 10, 1939 :

"With reference to the sale of SWAN matches in the Prairie Provinces; sales of 1,783 cases of these for the month of February is, I believe, altogether too many Swan matches to sell in consideration of the possible competitive sales in the territory, and unless there is a decided change in the attitude of the jobbers, and they do not use these Swan matches as we intended they should be used, I feel you will have to do something to withhold deliveries of the Swan brand at the \$8.00 price, because we are only competing against ourselves when we supply a quantity of matches at this price, which must be greatly in excess of any competitive sales made in the territory at anything like the price we are giving on Swan matches.

I feel that the jobbers should use these Swan matches only to prevent competitive sales that are being made direct to retailers in the territory, and we certainly cannot allow them to take our business away from our regular brands with Swan at these low prices." (Exhibit 224)

Later in the year Eddy took action to reduce prices on Swan matches in Alberta to the same level as in Manitoba and Saskatchewan. C. B. Nickerson gave instructions to this effect in a letter of September 30, 1939, to H. T. Graham, Edmonton, as follows :

"While in Montreal Mr. Miller and myself went to great lengths to see if we could think out a plan whereby it would assist you in meeting this Fox [Federal] competition, and one thing that seemed to stand out very clearly was the fact that this concern were concentrating on Alberta, more so than Saskatchewan or Manitoba, and the more we discussed this matter the more it would appear that the reason for this is that we are charging on the 12 for 100 Swan to all our Manitoba and Saskatchewan jobbers \$8.00 net, with an \$8.50 resale. This, as you know, means a 50¢ higher cost in Alberta, and to the retailer on the quantity of Swan disposed of, therefore Mr. Miller felt that if we lowered our cost to \$8.00 and the resale to be placed at \$8.50 instead of \$9.00 in Alberta, this would mean that it would not be as attractive for Fox to go after the business knowing that the lower Fox has to quote the more money he loses per case, which of course he is not anxious to do. Naturally on the losses he is taking today he would confine his activities more to the market where he could get a higher realization. We have found that in the markets where we have quoted Swan it has been necessary for Fox to drop considerably under so as to get an order, which he does not want to do, therefore I want both Mr. Morgan and yourself to make a survey, quietly of course, without the jobber knowing why, to find out just how the Swan stocks are on their warehouse floors.

The idea for this, Harry, is that we want to inaugurate the \$8.00 cost and we are not going to do any rebating on floor stocks. As the stocks of Swan are always so small we feel that you could gauge the time to put in the \$8.50 resale when the stocks are right down, therefore my thought is that at the earliest moment possible, which should only be a matter of a few days, you could advise your wholesale trade that from now on all the Swan sold on the 12 to 100 basis will be on a cost of \$8.00 net and a resale of \$8.50.

I want you to be careful and be sure that this \$8.50 resale in inaugurated for this is being done to force this unfair competition from your territory. This will mean that such agents as Ritchie will soon find that when an \$8.50 resale has been quoted to the retail trade it will not be at all attractive for him to get business at country points."⁽¹⁾

(Exhibit 224)

(1) The "12 to 100 basis" mentioned here, and the same or other proportions mentioned in other letters, refer to the policy of Eddy Match of limiting purchases of its so-called "fighting brands", in this instance to 12 cases for every 100 cases of its regular brands purchased.

Efforts by Eddy to meet direct sales to retailers in Ontario by Federal are indicated in a letter of June 14, 1939, from S. Oliver to E. P. Miller in which arrangements made with National Grocers were described as follows :

"I have arranged with Mr. McNally, who by the way was yesterday promoted to General Manager, to start immediately offering Canada and Swan matches at \$7.25 per case to the retail trade.

Mr. Blain will make up pro-rata orders for their branches totalling 1,000 cases of Swan at \$7.00 per case net. They understand that they will still receive Canada matches to the extent of 25% of their Eddy purchases at \$7.00 per case less .10¢.

Mr. McNally believes with us that a low resale price should do a lot to straighten out present conditions, and has assured me that his policy will be carried out by their branches." (Exhibit 236)

It may be pointed out that at this time the cost to wholesalers of Eddy's listed brands of household matches was \$8.87 per case.

Arrangements of this kind gave the jobber a much smaller margin on the fighting brand of matches than was secured on Eddy's regular brands. The difference in margin was expected to encourage jobbers to push Eddy's regular lines and to use the fighting brand only when competition was encountered. In a letter of October 11, 1939, S. Oliver told E. P. Miller that some National Grocers branch managers were reported to be "getting restive selling Swan matches at .25¢ per case profit". His letter concluded :

"I have told Mr. McNally that our opposition is trying to get higher prices and that if we can stop this by the use of \$7.25 price on Swan that it should have an effect within a month or two." (Exhibit 225)

Replying to this letter on October 12, E. P. Miller wrote :

"One of the reasons for the \$7.25 price is to combat sales made by Federal Match Company direct to the retail customers of National Grocers and other jobbers, and I think that Mr. McNally will agree that this is right and proper, because if this concern sells their customers direct then the National Grocers do not make any profit, whereas if they sell them SWAN matches where it is necessary to prevent this direct selling, they do get a small profit although I must admit it is not a satisfactory one, but they prevent their customers from buying matches outside of themselves, and there is, in my opinion, sufficient prestige in this, and the fact that both they and ourselves want to keep the sale of matches through legitimate wholesale channels should be a very good reason why they should continue this for the present.

There is another reason why these Branch Managers should continue this \$7.25 price, and that is because they (or the Head Office) cannot, as far as I know, buy any brand of matches from any other manufacturer at the price that they are buying the Swan matches from us." (Exhibit 225)

A report in July, 1939, that one of Eddy's customers in Winnipeg had purchased some Federal matches led to renewed warnings that resale price maintenance might be withdrawn if the matches were sold to retailers at a lower price than Eddy's Swan. E. P. Miller wrote to C. B. Nickerson on July 12 :

"There is no question but that we have got to protect ourselves, and if we can do so by getting the co-operation of the jobbers and their refusal to handle matches from other manufacturers who do not protect their profit, we are content to carry on the resale price plan, but we certainly will not be content to carry this on if jobbers like Codville take on other manufacturer's matches and sell them at lower prices than our own, and it is hard to understand why any jobber would support a manufacturer who does not support him." (Exhibit 50)

Although Eddy pursued a consistent policy of distribution through recognized jobbers, it did on occasion give consideration to direct sales to other firms if this would help to prevent the sale of Federal matches. The following letter of September 18, 1939, from E. P. Miller to Pyke Bros. Limited, Eddy's agents in Nova Scotia, is evidence of direct selling in such circumstances :

"With reference to your letter of September 14th in regard to a request from W. A. Chesley of Bridgetown, N.S.; considering the circumstances and that this party has been buying Federal matches direct, we would suggest that you sell him a minimum quantity of 25 cases at jobbing prices.

We would also suggest that you sell R. D. Stoddard & Son of Port Clyde, N.S. a minimum quantity of 25 cases, and we hope that this will enable us to take this business away from competition.

With regard to the selling of the International Provision Company, Halifax; we believe you did right in selling this customer direct." (Exhibit 239)

In the Prairie Provinces limitation of sales of the lower-priced Swan matches to 12 cases for every 100 cases of regular Eddy brands during 1939 was reported as irksome to some jobbers and, further, that it provided an opportunity for the sale of Federal matches. A change of policy was indicated in a branch circular dated Winnipeg, January 25, 1940, signed by R. G. Persse. This circular stated :

"As you are aware, we have been allowing Eddy customers Swan Matches at the rate of 12 cases for every 100 cases of regular brands purchased — pro rata on smaller or larger purchases of regular brands.

Recently we found Ross Richardson very active in trying to interest the trade in Fox brands at \$8.00 and of course he in no way limits the purchase. Two of our wholesalers fell for his arguments because they wanted more cheap matches. Another jobber told us that if we changed our system to 25 cases Swan with each 100 cases regular brands purchased (pro rata in larger or smaller quantities) the difficulty would be overcome and there would be no necessity for match handlers to purchase any Fox Matches.

Mr. Nickerson took up this important matter with Mr. Miller over the telephone and it has been decided that henceforth, AND RETROACTIVE TO JANUARY 1st, 1940, WHERE NECESSARY OR ADVISABLE, the allowance of Swan Matches will be in the proportion of 25 cases for each 100 cases of regular brands purchased. This we feel will do the necessary and shut out Richardson with his Fox brands." (Exhibit 224)

After referring to a shipment of Swan matches and to Mr. Nickerson's itinerary, the circular went on :

"If jobbers continue to purchase Fox Matches on top of the liberal allowance of Swan Matches referred to above, then you can rest assured our Principals will close the umbrella of protection and all handlers will find themselves selling matches with little or no profit. In other words, it is now up to you on behalf of the Eddy Match Co., the match handlers and ourselves, to absolutely stop Richardson selling any more Fox Matches to regular match handlers." (Exhibit 224)

Special allowances continued to be given by Eddy Match in its programme of checking the sale of Federal matches. In a letter of January 3, 1940, from the Montreal office of Eddy Match to C. B. Nickerson, the following reference was made to allowances to certain firms in Vancouver :

"We enclose herewith credit notes in favour of Kelly, Malkin and Macdonalds for 20¢ per case on their purchases of North Star brand at the \$8.25 list during the month of December 1939, which is the total extent of our understanding with regard to this allowance.

If in order please be good enough to pass on to these respective customers." (Exhibit 280)

The competition from Federal matches appears to have continued up to the time Federal Match Limited was acquired by Eddy in May, 1940. In fact, in some localities, such as Vancouver, where distributors not recognized by Eddy had stocks of Federal matches, the competitive influence persisted for some months after Eddy secured control of Federal. In the Maritime Provinces, however, Eddy took steps in May to withdraw North Star matches, as the following letter of May 7, 1940, to Schofield & Beer, Saint John, N.B., indicates :

"We wired you yesterday to withdraw NORTH STAR brand of matches, and advised that there was no other stock available of this brand, also to change the price on Little

Comet matches (10 gross cases) to the old list of \$8.85 per case, less 2% carload discount when purchased in carload quantities, and terms of 2% 10 days.

We realize, of course, that your trade is pretty well stocked with matches, and we hope it will not be long before we can get back to legitimate prices on regular brands of matches." (Exhibit 279)

This was followed by a letter of May 17 to the same firm emphasizing the withdrawal of the lower-priced brand :

"In reply to your letter of May 15th., the NORTH STAR brand of matches is off the market and we do not expect to have any more.

To say that they are off for good is making a broad statement, because some time within the next few years we may have to have them again, but you are perfectly safe in ordering a car of Maple Leaf and Blue Ribbon matches for stock, as these are the only brands we shall be selling. I therefore suggest that you send your order in immediately so that you will not run out of stock." (Exhibit 279)

C. B. Nickerson wrote to E. P. Miller on May 18, 1940, enclosing what he termed "a very long history re cheap priced matches" in British Columbia (Exhibit 203). "It is hard to realise", he added, "that the long and ??? fight has ended". In the memorandum which accompanied his letter of May 18, C. B. Nickerson first referred to North Star and Canada brands as follows :

"These brands should be considered separately in as much as 'North Star' was found necessary to market through the wholesaler at a profit of not more than 50¢ per case to meet 'Fox' competition in the small retail outlets and 'Canada' has been confined to Safeway and Woodward's Limited to meet Fox competition in the large stores, but were sold by these two large outlets at 'Loss Specials'. 'North Star' — With the closing out of 'Fox' there is no need to continue marketing 'North Star' through the jobber as the retailer purchasing this brand at \$8.55 have resold them at Eddy regular brand lists. So long as there are no cheap *Canadian Brands* to be had there is no reason to continue 'North Star'." (Exhibit 203)

The memorandum then described the circumstances which led to Canada and Pontiac brand matches being offered to certain department and chain stores after David Spencer Limited started to sell Federal matches on special semi-weekly sales. It continued :

"As you are aware, the volume on cheap priced matches have [sic] increased to the point where it is dangerous and at the expense of Eddy's regular brands, therefore, I would recommend that North Star be discontinued and Canada and Pontiac, if they cannot be discontinued by sudden withdrawal, be increased in price..."

Canada matches were made by Eddy's subsidiary in Hull, while Pontiac was a Commonwealth brand.

In referring to the policy which might be followed in distributing Commonwealth matches, Mr. Nickerson added :

"In order for Winter [Commonwealth] to get their quota I am under the impression that while the jobber will sell on a certain resale their cost will be low enough to offer the jobber an extra inducement to push their brands. I note that they will issue net prices, with no holdback of part of their discount on the resale which means that where no penalty is exacted there is a danger Winter will be sold below their published list, all of which does not alarm me, *except* that some jobbers may get the impression that if they can get away with Winters they can do it with Eddys. I think you will agree that it is to Eddy's advantage to maintain the resale..."

The A. P. Slade Company in Vancouver had been acting as distributors for Federal Match prior to the latter's acquisition by Eddy. At the time of the purchase, Slade had a quantity of Federal matches in stock and Nickerson was concerned over what policy would be followed in selling them, particularly after Eddy Match had advanced its prices when the excise taxes on matches were raised in the budget of 1940. Miller, however, thought that the opportunity for Slade to be a disturbing element had been greatly limited after the purchase of Federal Match. He wrote to C. B. Nickerson on July 17, 1940 :

"If Slade gets rid of these matches and tries to buy matches in the future, he will not be able to buy them in Canada so that he can upset the market — at least for the present — and the only market from which he could buy would be the United States, and I think perhaps this is doubtful under present conditions." (Exhibit 241)

It remains to describe the acquisition of Federal which enabled E. P. Miller to write so definitely about the Canadian market. The available evidence does not reveal the negotiations which preceded the actual purchase or the full considerations which led the shareholders of Federal to accept the offers for their shares.

5. Acquisition of Federal Match

Throughout the period of its operation as an independent company Federal's president was J. W. Charette. During this time the company built up a surplus in excess of \$42,000. Early in 1940 negotiations were conducted between J. W. Charette and representatives of Eddy Match for the sale of Federal Match. On May 9, 1940, all the shareholders of Federal Match formally offered to sell their shares to Valcourt and undertook, as a condition of acceptance of the offer of sale of their shares to Valcourt, to enter individually into a formal non-competitive agreement with Valcourt not to engage, either directly or indirectly, in the manufacture of matches in Canada for a period of twenty years from the date of acceptance of their offer by Valcourt. The transaction was completed the following day, when all the outstanding shares were purchased by Valcourt. Particulars of the purchase are outlined in a letter of August 26, 1940, from H. Hart, then assistant secretary of Eddy Match to E. P. Miller as follows :

"The position in brief on May 10, 1940, the date of purchase, was as follows :—

Federal authorized capital amounted to \$100,000.00 comprising 1,000 Common shares with a par value of \$100.00 each.

Federal issued capital was \$45,500.00 — 455 shares.

Federal surplus was \$42,323.08.

Valcourt had made payment of \$136,500.00 to the stockholders of Federal in purchase of the business, cash being supplied by Eddy." (Exhibit 128)

On the basis of a purchase price of \$136,500, the cost of each share was \$300. E. P. Miller in a letter of May 23, 1940, to H. Hart described as "'Good Will' or 'Nuisance Value' investment" the difference of \$46,500 between the approximate value of \$90,000 for subscribed capital and surplus and the total cost. (Exhibit 126). Mr. Miller's evidence with respect to the reasons for the purchase is in part as follows :

"Q. Why did Eddy Match want to secure control of Federal Match ?

A. Well, it was, in my opinion — it was the same proposition as Canada Match — inefficient management and poor quality goods which reflected on the industry, and a very obsolete and very bad operation. I did not consider it was any benefit to this country by such operations.

Q. But apparently a high price was paid for the shares ?

A. Yes, sir.

Q. Did the fact that by the purchase, Eddy Match was eliminating a competitor, appear to be an advantage ?

A. Well, I think the answer to that would be obvious, of course.

Q. And it was among the motives which prompted Eddy to purchase Federal at that price ?

A. I would say so, yes."

(Evidence, pp. 576-577)

Once again, through the purchase of the issued stock of a competitor all the manufacture of wooden matches in Canada was controlled by one group.

At the time of the acquisition of Federal Match, J. W. Charette entered into an employment contract with Valcourt, effective May 15, 1940, and terminating May 14, 1946, by which he was to receive, as an employee of Valcourt, a salary of \$345 per

month (Exhibit 281). R. K. Halliday, President of Valcourt and an employee of Eddy Match, stated that the payments under this contract were made by Eddy Match and also that it was doubtful if Charette actually worked for Valcourt towards the end of the contract period (Evidence, p. 640).

On May 10, 1940, employment contracts were entered into by Management Engineers of Canada Limited with P. A. Lebel, who had held shares in Federal Match, and G. Vaillancourt. These agreements were for a three-year period from June 1, 1940, to May 31, 1943, and contained a provision that in the event of termination with notice by the employee "he hereby covenants and agrees that for a period of three years from the date of such termination he will not accept employment with, nor directly or indirectly, either as principal or agent, or as director or manager of a company, or otherwise, carry on or be engaged or concerned, or interested in or assist any other person to carry on, or be engaged or concerned or interested in the business of match manufacturing in the Dominion of Canada." (Exhibits 283 and 284). Management Engineers was incorporated under Dominion Letters Patent on June 28, 1933, to engage in the business of industrial engineering. At this time its president and treasurer was J. E. Duffey, already referred to in connection with the operations of Commonwealth Match and forty per cent of its issued shares were registered in the name of Eddy Match. The agreements with Lebel and Vaillancourt were subsequently cancelled and superseded on May 14, 1941, by agreements between Federal Match and Lebel and Vaillancourt. These agreements also ran to May 31, 1943, and were identical in terms with the previous agreements with Management Engineers (Exhibits 285 and 286).

6. Operation of Federal as a Subsidiary of Eddy Match

As in the case of Canada Match, E. P. Miller has been responsible for the management of Federal as a subsidiary of Eddy Match.

While the acquisition of Federal Match was made on May 10, 1940 and transfer of shares approved, only five shares were issued at the time to Valcourt's nominees, who became the officers and directors of the company. Shortly thereafter a loan of \$25,000 was made by Eddy Match to Valcourt and in turn to Federal Match for purposes of working capital.

It will be recalled that the purchase price of Federal Match exceeded the accumulated surplus and issued capital stock by approximately \$46,500. Discussions were held among officials of Eddy Match and a representative of a United States firm of public accountants and tax consultants with respect to this matter and on August 26, 1940, H. Hart in a letter to E. P. Miller giving a summary of the suggested method of dealing with the problem, said :

"It is understood that the main principle to be followed is that Federal's assets will be written up to reach the purchase price rather than the purchase price be written down to Federal values as was done in the case of a previous acquisition." (Exhibit 128)

It would appear that this suggestion was followed, as on November 19, 1940, by by-law 33, Federal Match declared a dividend of \$91,000, comprising the earned and undistributed surplus of \$42,000 and an item of goodwill valued at \$49,000, to be distributed among the shareholders in the form of 910 shares of capital stock in the company. Subsequently, in November 1943, however, it was decided to write off the goodwill item of \$49,000 through surplus account and authorization was given to make the necessary entries to write this off and to decrease the surplus account by a like amount.

On November 19, 1940, authorization was also granted to liquidate Federal indebtedness of \$25,000 to Valcourt by the issuance of 250 shares of Federal to Valcourt. On the following day share certificates for 1,615 shares were issued by

Federal Match, made up of the 455 shares outstanding at the time of its acquisition by Eddy Match, 910 shares issued as a dividend and 250 shares to liquidate its indebtedness to Valcourt. Of these, 1,610 shares were issued in the name of Valcourt and the remainder in the names of its nominees who were officers and directors of Federal Match.

At a meeting of November 18, 1940, authorization was granted for the liquidation of Valcourt's indebtedness of \$161,500 to Eddy Match, made up of the loan of \$136,500 for purchase of Federal Match and the additional loan of \$25,000 advanced in turn to Federal Match, for working capital, by the issuance of 1,615 shares of Valcourt to a nominee of Eddy Match.

VII. ENTRY OF WESTERN MATCH COMPANY AND SUBSEQUENT ACQUISITION BY EDDY MATCH IN 1949

1. Importation of Matches into Western Canada

The result of Eddy's purchase of Federal Match early in the war was that during the war period Bryant & May and Diamond controlled all the factories in Canada producing wooden matches. The demand for matches, as for most other products, increased as the war went on and domestic sales of Eddy Match expanded in this period. The expansion, as reflected in the quantity sales figures given below, was concentrated largely in the plants of Eddy Match itself as the sales of subsidiary companies remained relatively constant.

TABLE 2. DOMESTIC SALES OF WOODEN MATCHES BY EDDY MATCH AND ASSOCIATED COMPANIES, 1940-1947

| YEAR | EDDY | CANADA | FEDERAL | COMMONWEALTH |
|------|--------------|--------------|-----------------------|--------------|
| | No. of Cases | No. of Cases | No. of Cases | No. of Cases |
| 1940 | 421,169 | 44,455 | 38,928 ⁽¹⁾ | 51,488 |
| 1941 | 425,641 | 32,523 | 28,451 | 45,482 |
| 1942 | 473,799 | 32,749 | 26,753 | 46,645 |
| 1943 | 489,801 | 32,965 | 29,232 | 48,996 |
| 1944 | 480,169 | 32,965 | 30,797 | 50,267 |
| 1945 | 524,235 | 33,383 | 31,306 | 50,790 |
| 1946 | 588,256 | 34,867 | 33,014 | 51,620 |
| 1947 | 550,595 | 32,067 | 29,370 | 46,132 |

(1) Production rather than sales in the case of Federal for 1940.

In addition to the sales shown in the foregoing table, Eddy Match Company Limited increased its exports of wooden matches from 2,458 cases in 1940 to 22,800 cases in 1945, but post-war exports were 6,113 cases in 1946 and 9,678 in 1947.

Imports of matches continued as relatively insignificant during the war period but sporadic shipments from the United States, in particular to the Pacific Coast and the Prairies, were given close attention at times by Eddy. The value of imports during this period, together with the factory value of wooden matches made in Canada, is shown in the following table :

TABLE 3. TOTAL CANADIAN PRODUCTION AND IMPORTS OF WOODEN MATCHES, 1941-1948

| Year | Production(1) (Selling value at works, excluding excise or sales taxes) | Imports |
|------|--|----------|
| 1941 | \$1,694,732 | \$ 9,322 |
| 1942 | 1,897,403 | 8,846 |
| 1943 | 1,879,332 | 41,444 |
| 1944 | 1,928,388 | 13,533 |
| 1945 | 2,306,508 | 5,629 |
| 1946 | 2,578,185 | 3,750 |
| 1947 | 3,184,591 | 54 |
| 1948 | 3,339,380 | — |

(1) Includes value of production for domestic and export business and, from 1946 on, the value of output of an independent manufacturer, Western Match Company.

Source : Dominion Bureau of Statistics.

The figures for imports in 1943 and 1944, which stand out in the above table, reflect conditions in the West in those years as described by C. B. Nickerson in a letter of November 25, 1944, to E. P. Miller. Mr. Nickerson wrote from Vancouver about purchases of imported matches by some firms in Winnipeg. At this time match distributors in Canada were on a quota basis in line with governmental policy which, in order to ensure equitable distribution, required the allocation of available supplies among established customers according to the proportion supplied to each in the year 1941. This would account for their interest in securing additional matches from outside sources. In his letter Mr. Nickerson wrote :

"It just seems that the unexpected always happens in the match business and now our old friend 'Ross Richardson' is again trying to get himself in the match business. I understand from my talk with Mr. Powell that Richardson went down to the States at the time of the Food Brokers' convention in the east and it would seem that he has been able to pick up a car of matches.

After our conversation I got in touch with Mr. Persse on long distance and explained exactly what you suggested as to how it should be handled and Mr. Persse is going to look after this himself. He also feels that there will be no trouble arising and that the arrangements will be ample to take care of the jobbers without large deliveries and in this way we hope to eliminate a selling campaign. Mr. Persse stated that outside of the two accounts, Codville and McLean who purchased 200 and 250 respectively, they have not found any other jobber who has purchased."

After referring to certain firms which had not purchased imported matches, Nickerson went on :

"I feel Mr. Miller that this situation is a little different from the one a year ago in as much as only two jobbers purchased and you will remember George McLean bought a straight car as Western did, also Campbell purchased a large quantity. It is true that Codville did not but the only reason for that was that Bowser was in Vancouver. Furthermore we only have the one car to contend with and not three. Also another very important thing is that the Hudson Bay who brought them in had an active sales force contacting the retailer, so if our present arrangement works out along the lines we anticipate we should be able to make Mr. Ross Richardson see plenty of these matches before he gets rid of them and if we can keep him from disposing of this car for some considerable time he might decide that the match business is a poor game." (Exhibit 280)

No repetition of imports on the scale of 1943 is shown in the trade figures for following years. The increase in the demand for matches in the United States as the war went on would limit the quantities available for export.

2. *Early Interest of Eddy Match in a Plant in Western Canada*

The question of a western plant was given consideration shortly after Eddy Match was organized in 1927. It was only when an independent company actually sought to enter the market, however, that the Eddy company took steps to build a factory in the West. In a letter of March 9, 1929, to W. A. Fairburn, A. G. Woodruff, the first general manager of Eddy Match, had written :

"Regarding the erection of a Western factory, I had understood all along that this was a settled fact, and had discussed same with Mr. Paton, and with Mr. Bennett, and on several occasions with yourself as being one of the activities which was to be started in the early Spring of 1929.

With reference to the funds for same, I wish to advise you that at the present time there are ample funds available, due to the fact that Eddy Match Company, Limited, have on hand at the present time \$350,000.00 in cash, most of which has been worked out of inventory, and there is no reason why this amount should not be increased from inventory, due to the fact that for the past six months, in order to take care of the moving period from Hull to Berthierville, we have built up a larger supply of finished matches than it is our intention to carry as regular stock.

Mr. Keyes and Mr. Larson are leaving for the West to complete any investigating that I felt had not been thoroughly done when I was out there, in order to better place myself in a position to determine the location.

I think I had expressed to you at an earlier date that my preference from the investigation so far would be Red Deer rather than Calgary.

I would appreciate hearing from you, after the investigation is made by Mr. Keyes and Mr. Larson, whether or not I shall proceed to determine the location, or whether you wish the reports placed before you and same discussed with me before any definite step is made.

Wish to say that my opinion regarding the policy of building in the West has not changed up to the present time." (Exhibit 280)

Public announcement of Eddy's intention to build a factory at Red Deer, Alberta was made in May, 1929, but no construction was undertaken before the death of A.

G. Woodruff later in the year. A factory site was purchased at Red Deer in 1930 but the project was not carried further.

On December 18, 1935, T. J. Reynolds referred to the question of a western plant in a memorandum to E. P. Miller :

"I think we should be forehanded and figure out what would be necessary in the way of a factory located in British Columbia, probably Vancouver, in case of necessity. Naturally we do not want to build a factory out there unless forced to do so, but I think if Snyder seriously considers building a factory in Vancouver we should beat him to it. I do not believe we ought to consider the Red Deer location, and I understand you agree on that point.

Will you kindly do a little figuring as to what territory would be supplied from a factory located in Vancouver or elsewhere in British Columbia and let me know the quantity in gross that could be profitably made and distributed from such a factory ? Please understand there is no definite idea of going into such a plan, and don't say anything about it or give it any publicity." (Exhibit 275)

In his reply of December 27, Mr. Miller compared the savings in freight charges which would follow from establishment of a factory at Vancouver or Red Deer. He explained that at the former there would be a saving of 35 cents per case while at the latter it would amount to 28 cents, but the latter saving would apply to a larger volume of business. Mr. Miller went on to point out however, that there were other factors to consider in establishing a factory in Western Canada, the most important being the probable increase in manufacturing cost which would result from reduced production at the Pembroke factory. He doubted if there would be any over-all saving since the increased cost of manufacture would likely be more than the saving in freight. (Exhibit 275)

In referring to Snyder, Reynolds apparently had in mind the Pacific Match Company of Tacoma, Washington, U. S. A., which appears to have been outside the Diamond group of companies and which, from time to time, exported matches to British Columbia. Reynolds' memorandum of December 18, 1935, would indicate that Eddy Match had given up the idea of building a factory at Red Deer and that a factory would be built in the West only if another company showed signs of establishing itself in that territory.

3. Action by Eddy Match to Forestall Possible Competition from Western Match

Western Match Company, Limited of Victoria, B.C. was incorporated as a provincial company on January 11, 1945. According to announcements made in British Columbia, the company was organized by a group of business men in Victoria and Vancouver and the capital for the new enterprise was secured privately. Contracts for the construction of a match factory in the adjoining municipality of Esquimalt were let later in 1945 and the plant was put into operation in September, 1946. One of the directors of Western Match was the sales manager of Pacific Match Company of Tacoma, Washington.

Prompt action was taken by Eddy Match to deal with the situation created by the establishment of Western Match. A policy was initiated in March, 1945, of increasing shipments of matches to Western Canada, although Eddy Match was then shipping all the matches it could ship (Evidence, p. 607) in an attempt to meet the increasing demands for matches from all parts of Canada. In a letter of July 6, 1945, to Tees & Persse, Winnipeg, E. P. Miller wrote :

"Because of our policy, started in March, to increase deliveries to the trade in Western Canada, sales in Winnipeg territory show a 30% increase over the first six months of 1944." (Exhibit 270)

In a letter of the same date to the Saskatoon office of Tees & Persse, E. P. Miller wrote "sales in the Saskatoon territory show a 46% increase" (Exhibit 270).

This policy had been designated by C. B. Nickerson as the "Western Operation Plan" in a letter of April 20, 1945, to E. P. Miller (Exhibit 270). Its objective was described as follows by E. P. Miller in writing to C. B. Nickerson on June 30, 1945 :

"From what you report it seems that our plan is working in Western Canada and the fact that Codville Company and Western Grocers both frankly admitted to you that their Match business was slowing off certainly seems to indicate that our plan of giving them more matches has resulted in loading at least part of the market. As we discussed, if this volume kept up it would certainly saturate the market, and while I anticipated three months would do this, apparently it is going to take a bit longer, probably entirely due to the fact that sales are still so easy to make. I am afraid, however, that our Western business will suffer some time in the future, but, of course, we have got to keep the market loaded in order to prevent an open market for the sale of 'Western' matches when and if they are in a position to deliver." (Exhibit 270)

The plan of increasing shipments to Western Canada was not maintained without difficulty, as E. P. Miller indicated in a letter of November 5, 1945, to S. Oliver of Eddy's Toronto office :

"Unfortunately, we are in the position right now that we do not have sufficient stock so that we can make any extra deliveries during the next two months. As you know, we tried out this plan in Western Canada, but it has gone merrily on for eight months with no sign of a let-up, and we have never been in such a bad position during the entire period of the war for stock as we are at the present time. We are dating orders for Western Canada ahead a month as we cannot continue to make deliveries the way we have been making them, and this idea of giving these two chains extra matches in November seems to be absolutely impossible because we, unfortunately, are not in a position to increase deliveries." (Exhibit 272)

4. Increased Shipments to Western Canada followed by Establishment of Eddy Factory in British Columbia

Decision was also made by Eddy Match to establish a branch plant in British Columbia. The evidence does not disclose the particular time when this decision was reached. The following statement on this point was made in written replies submitted on behalf of the company :

"The decision to proceed with long debated plans to build a plant in British Columbia was made late in 1944 or early 1945 and the matter was proceeded with. It is somewhat difficult to be at all definite about dates in this matter because building in the West had been contemplated for many years. Land was purchased, for such a purpose, at Red Deer in 1930 but was not used and in 1936 an intensive survey was made in contemplation of establishing a factory in B.C."

The marketing policy to be followed in Western Canada and the extent to which products of the branch factory would be identified were the subjects of a memorandum of October 9, 1945, from W. A. Fairburn to E. P. Miller :

"In regard to the brands to be sold in the western provinces, it was not my idea to put on special labels saying that the goods were made in the West, but what you may do later in regard to brands will be determined to a large degree by what competition forces you to do to maintain both trade distribution and profits. We should, of course, use our old established brands as long as possible, but you may be required to resort to fighting brands, and I think that you should give this matter some thought ahead of time so that there is no occasion for you to act precipitously in the matter but have your plans well developed and hold back new brands until you may be forced to use them. If such special brands are put out, they should not be put out as being manufactured in Western Canada, and probably it would be just as well not to have any distinguishing mark on the label that would enable competition to identify the goods as being made in Ontario or Quebec on the one hand and British Columbia on the other. However, all advertising and propaganda work should specialize in the West the British Columbia (or Western Canada) factory. The matches shipped from the East should go into storage at the western plant, and they should be so made and shipped from the western plant that the trade and competition will have no means of knowing (without access to the plant) whether the matches were made in British Columbia or not. I think your thought of broadcasting in the West that Eddy matches are being made from British Columbia lumber is a good one, for under no condition would I want to see the relatively small quantity of matches that will be made in the western plant bear a distinguishing label that would definitely identify the product with any specific plant." (Exhibit 274)

On October 31, 1945, E. P. Miller wrote to R. G. Persse :

"I am enclosing copies of a circular letter which I have sent to all of your branches today, giving them information about the new Eddy match plant that will be built in MISSION, B. C." (Exhibit 273)

In a reply to his letter on November 2, R. G. Persse wrote :

"I acknowledge your favor of the 31st ult., and I am very glad to learn that you have advised all our Managers of the new factory which is to be erected in Mission City, B.C. I presume rumors of your intention have reached some of our men and will eventually reach all so that, as stated above, I am glad you have posted them fully.

I am quite sure our friends in Victoria received quite a shock when they heard of your 'Mission to Mission' and no doubt when the Western Match Company was being organized they thought they would have a monopoly of British Columbia — and possibly Alberta — business. However, such is life and had they given the question the consideration it deserved, I feel sure they would never have started their plant and certainly would have had difficulty in financing. By the use of British Columbia pine for 18 years, you have really been operating in that Province and soon with the employment of B. C. labor, you will be a Canadian Company positively operating in Canada's most Western Province.

I imagine it will be some time before you are in operation but at least our friends in Victoria will know that they will be up against mighty stiff competition." (Exhibit 273)

Some months after Western Match was incorporated it was found that the name "Western" was a trade mark owned by Eddy Match although never used by the company. Western Match asked Eddy Match for permission to use the name "Western" and Eddy took steps to secure the cancellation of its registration so that the name would be available for use by Western Match. A policy of co-operation in this way was recommended in a memorandum of December 27, 1945, from W. A. Fairburn to E. P. Miller :

"I acknowledge herewith yours of the 21st in regard to application of the Western Match Company with respect to the word 'Western' which we have registered as a brand name or trade mark, but which has never been used by us.

In deciding upon a company name, the Western Match people apparently did not make as thorough a search as would seem to have been advisable to determine if the word 'Western' was free for their use. We could embarrass these people by making them change their name and go to expense with respect to new engraved stock certificates, etc., but the name Western Match Company is to my mind just as good a name as far as we are concerned for new competition as would be some new name that they might develop, and I think it well to exhibit a broad-gauged spirit of friendliness and co-operation in the early days of that company's history; so I would suggest that you acknowledge the Western Match Company letter of the 19th, and after you have obtained the views of a majority of the Board resident in Canada and the United States, write the company that its request has been discussed informally with available members of the Board, who form a majority, and that it is the intention of our company, in a spirit of co-operation to comply with the Western Match request, but formal action in regard to the matter can not be taken until the next regular meeting of the Board of Directors." (Exhibit 280)

Although Eddy Match continued its policy of maintaining increased shipments to Western Canada it found that, with the demand existing, sales could be made without pushing. On January 22, 1946, C. B. Nickerson reported to E. P. Miller :

"I might say, however, that I am beginning to be converted to the fact that there must be another use for matches other than the old time lighting, and the very fact of the large volume sold especially in Western Canada would indicate that I am somewhere near right. You must remember, Mr. Miller, that while Western Canada is 68% over pre-war sales, 48% over 1941, and 23% over 1944, this does not take into consideration the fact that we have been holding back on sales and certainly could have sold without any effort whatsoever a greater portion. For example, let me point out that right now here in Vancouver we are cutting down on practically every order that arrives, simply because we know that if we let them have these matches they will go way over the allotment specified for this territory, which we both agree is above what should be sold. We are having a hard time satisfying some of our jobbers that we are not holding out on them. I only mentioned this as an example of what could be sold if a real effort was put behind same." (Exhibit 272)

On the other hand, Commonwealth Match received from its Western representatives reports of increased difficulties in making sales of matches. On January 11, 1946, the Calgary agent, H. C. Andrew Limited, wrote to Commonwealth, "We have had several parties tell us they would like to be relieved of their monthly quota of matches". (Exhibit 324). In a letter of February 7 on the same subject to H. C. Andrew Limited, Commonwealth Match wrote :

"We have your letter of February 1st and are getting very much disturbed about the cancellations in your territory. The pressure for Matches is still exceedingly heavy in the East and it is hard to explain the Calgary situation. The Eddy Company must have piled in Matches far beyond 1941 quotas.

We thank you for letting us know promptly about these cancellations and if any more should occur, we wish you would write us immediately." (Exhibit 324)

Indications of other cancellations of orders for Commonwealth matches were given in a further report by H. C. Andrew Limited in a letter of March 4, 1946 :

"I don't know what is wrong with the sales of Matches. No one can tell me the answer. For instance Louis Petrie, Limited for the first time telephoned me Saturday and said they could not handle their March quota; they still had January and February purchases on hand. Scott Fruit Co. Lethbridge wired us this morning as follows,

Sorry still unable use quota Matches.

Peacock & Kitson, Ltd. Lethbridge, Harold R. Smith & Co. Calgary have also advised cannot use their quota this month. This is worrying us somewhat, as you mentioned in a recent letter that this is not the condition in Eastern Canada." (Exhibit 324)

The purpose of these increased deliveries by Eddy Match to the West was admittedly to "load the market" so as "to prevent sales of any competitive Western matches". The effect of this policy on the business of suppliers other than Eddy Match and the purpose of the policy, are clearly seen in these letters and in others written later in 1946. For example, Eddy's western agents, Tees & Persse, were reminded of the purpose in a quarterly review which E. P. Miller sent them on April 9, 1946. The letter to the Calgary office read :

"Enclosed is sales comparison record for your territory for the first three months of 1946 against the first three months of 1945. This comparison shows a 10% increase in deliveries for the first three months of 1946.

As you know, there is a possibility of a competitive match company offering matches in Western Canada before this year is over, and it is our job to obtain equitable distribution of the large volume we are delivering and prevent this competition from selling because of any retail or wholesale customer being open for matches because Eddy's brands are not readily available.

With the tremendous quantity of Eddy matches shipped into Western Canada there should be stocks in all stores, and our deliveries over last year and for the first three months of 1946 should, if distribution has been right, prevent any dealer from purchasing competitive matches because of short supply.

Your total shipments for the first three months of 1946 have been 70% over average three-month deliveries in pre-war years. 1945 deliveries were 71% over average pre-war shipments, and these substantial increases will be of great help against any competitive matches offered in a market so well supplied.

We think we have done a good job in these large increased deliveries during a period when the jobber could easily sell matches, and we believe that generally, the wholesale and retail trade appreciate that we have, as a manufacturer, delivered sufficient quantities of matches to more than take care of the actual need for matches, and this should stand us in good stead if and when any competitive matches are offered to our customers." (Exhibit 270)

Commonwealth Match's agent in Edmonton, Ross Richardson & Co., Ltd., referred to cancellation of orders for Commonwealth brands in a letter of June 19, 1946 :

"We were greatly surprised to receive a number of cancellations of usual monthly quotas. Scott Fruit Company Limited and The National Fruit Company Limited, advised us that they could not handle their usual monthly allotments because they still had a considerable stock of our matches on hand. Similarly, Newhouse Wholesale Ltd., were not able to handle their allotment, and they too had quite a large stock of our matches on hand.

As near as we can ascertain, all of the trade have been receiving increased deliveries from Eddy's, and they claim that when they have Eddy's Matches, that is what their customers want and as long as they have Eddy's to give them, they do so. The result has been that our matches have not moved out in the usual way. We believe our customers fully appreciate the help that we were able to give them during the period when matches were short, and they fully expected that they would build up at least a small demand for our brands, but again they state that it has not worked out this way.

We thought you should have this information, because as we see it, we will be receiving other cancellations in the coming months unless Eddy's deliveries are again curtailed." (Exhibit 271)

Increasing difficulties in maintaining large deliveries to the West were reported by Eddy Match but the policy was apparently continued as the factory of Western Match neared completion. E. P. Miller wrote to C. B. Nickerson on July 2, 1946 :

"If we can only keep our deliveries up, which seems to be getting harder all the time, we certainly should be in a position to prevent sales of any competitive Western matches when and if they get into production and are able to make deliveries.

We are attempting to supply all the matches that any of the jobbers can use in Western Canada, and apparently from what you report, this is having some effect, although our sales continue to be away beyond any we have ever experienced in the West. Frankly, we are continually robbing Eastern Canada, which, of course, is the only thing we can do under the circumstances, but with production problems which continue to increase instead of decrease, we are certainly in for a very difficult time, and because of the compulsory holidays, both our Berthierville and Pembroke factories are closed this week and there is nothing we can do about it.

I really do hope that the Western jobbers will soon have the retail trade loaded to such an extent that there will be some falling off in sales, because with these constant increases in the West we are certainly up against it in the East. I do not, of course, question the policy of giving everybody all the matches they want in Western Canada under the present circumstances, but unless we can have an improvement in the quantity of raw materials that we can receive and in our manufacture, we are going to find ourselves in a most difficult position before long." (Exhibit 272)

Ten days later E. P. Miller wrote to R. G. Persse :

"We enclose sales comparison for the first six months of 1946 by branches, and total for the Prairie Provinces and for Western Canada.

There is not very much we can say about these sales because they seem to go on and on, and on this comparison we show 12% increase for all of the West over last year for the first six months and our sales have been 45½% over quota which some years ago we had difficulty in reaching.

We hope these large sales are going to protect us against competition which we expect will be in the market before long, and about the only way I know to protect ourselves against competition taking business is to load the market, and this is what we hope these large sales are doing." (Exhibit 270)

R. G. Persse replied on July 15 :

"Thanks for your favor of the 12th instant and I have read with interest your Sales Analysis of Western Canada for the first six months of this year against the same period in 1945.

I will acknowledge that an increase of over 12% on our heavy sales of last year looks extreme, nevertheless, the Matches must be going into consumption and I do not think there is much chance of a falling off in business. Surely the Match user in Western Canada must now be securing all the Matches he requires and, therefore, how our friends of Victoria hope to break into our market is beyond me. Of course, our greatest safeguard against the impending 'invasion' is plenty of stock in the hands of wholesalers, retailers and consumers and that ideal has certainly been reached." (Exhibit 270)

5. *Conditions faced by Western Match and Ultimate Acquisition by Eddy Match*

It is obvious from these extracts that Eddy Match had succeeded in "loading" the western market, anticipating the entry of the Western Match Company; thus when Western Match began to seek outlets for its production in the fall of 1946 it found that its opportunities for domestic sales were seriously limited for a considerable time. Wholesalers were stocked up and the largest ones were operating under arrangements with Eddy Match which provided for special allowances.

The wholesale grocery trade, which is the principal outlet for the distribution of matches, is characterized in Western Canada by the importance of a few large companies operating branch establishments. According to the report of the Dominion Bureau of Statistics for wholesale trade in 1941, wholesale grocers with only one establishment accounted for 41 per cent of the sales of wholesale grocery trade in Canada as a whole. In British Columbia, however, the proportion for single-unit firms was only 35 per cent and in the Prairie Provinces only 18 per cent. With one of the most important of the multiple organizations in Western Canada, Western Grocers Limited, Eddy Match renewed a contract for a further three-year period terminating in September 1947, under which Western Grocers undertook to purchase only Eddy matches.

Western Match faced other equally formidable difficulties, for some of which its larger competitors could not be held responsible. The training of a factory staff had to be carried out in an area where no match manufacturing had previously been conducted, by a management which, apart from technical assistance which might be secured, had to rely on its own resources in overcoming the problems of producing a new product of acceptable quality. Western's unknown brand and quality of match had to compete for patronage against the well-known brand names and quality of the Eddy products. Other obstacles, however, included the same system of selling which Eddy Match had built up to deal with the competition of Canada Match and Federal Match. This included in Western Canada the programme of resale price maintenance as well as the system of special discounts to large buyers. The three-year contract with Western Grocers, Limited in September 1944, was to the following effect :

"In return for your entire Match business from November 1st, 1944 to October 31st, 1947, the Eddy Match Company Limited agree to sell you their various brands of matches at their list price in effect at point of purchase from time to time, less their regular discounts in effect on date of shipment. Present discounts and terms are at our published list prices — 2% carload discount for pool car lots of 200 cases or more — terms 2% 10 days, net 30 days.

The Eddy Match Company Limited also agree to supply you with Red and White household size on the same basis as Silent household size, and Red & White Pockets on the same basis as Sesqui.

Providing you signify your acceptance of this contract by placing your signature hereon, the Eddy Match Company Limited will allow you, during the life of this contract, a special confidential discount of 5% (five percent) on all Red & White brands supplied, and a special confidential discount of 2% (two percent) on all listed Eddy brands supplied.

This confidential 5% (five percent) on Red and White brands and 2% (two percent) on Eddy brands to be figured on the net amount of invoices rendered and before deduction of 2% (two percent) cash discount."

These special confidential discounts were in effect when Western Match came into production in 1946. In addition the following allowances were being made to other wholesale firms in Western Canada :

Walter Woods, Ltd.

20¢ per case on Red Bird and Silent 3's.

5% on Owl 3's.

Geo. McLean Co. Ltd.

15¢ per case on No. 3's.

Macdonalds Consolidated, Ltd.

5% on all purchases except book matches.

Kelly Douglas & Co. Ltd.

5% on purchases of Red and White brand.

In Vancouver, Commonwealth Match was supplying boxes of 300 matches to Kelly Douglas & Co. Ltd. and to Overwaitea, Ltd., the latter a retail chain grocery,

at a price of \$10.01 net when its list price was \$11.26 less 2% cash discount.

As it had done in the case of earlier competitors, Eddy Match gave close attention to the sales activities of Western Match. On October 29, 1946, C. B. Nickerson made a report from Vancouver to E. P. Miller which contained the following comments :

"Mr. Reddin was in Victoria yesterday and as per my conversation with you over long-distance today, Mr. Reddin checked up and found that W. H. Malkin had ordered 10 cases of 3's and 5 cases of Pockets. Also in conversation with Mr. Harrison, Manager of Kelly Douglas & Company, he was surprised to find that they had gone out and booked 117 cases of 3's and 117 cases of Pockets and he had given a covering order of 250 cases or 125 cases of each.

....

Apparently, they [Western] are still working on those two cars of Idaho Pine which they received from the States. They do not seem to have delivered very much stock to the jobbers in Victoria as I called Mr. Edwards of W. H. Malkin and he can not ship any Pockets but intended to try and secure one. He stated that he had 10 cases of 3's and I have asked him to ship me one case of each. I will have them encased in tin and express to Pembroke immediately. On calling on Kelly Douglas & Co. Ltd. here, I was assured by Mr. McPhee and Mr. Fraser that they were not going to push the sales of this new Match Company and he had instructed their staff to sell Eddy's, who were their friends. Their Victoria Manager had acted entirely against instructions in going out and making this coverage. Mr. McPhee was very displeased and he stated that from now on, the Victoria office would not push on any more sales of these matches.

We next saw Mr. Jardine of W. H. Malkin Company and he is very much against handling this stock. He stated that they might have to put a few cases in stock but certainly would be very few. He had instructed his men to sell Eddy matches and to get behind Eddy sales.

Woodwards have only ordered 5 cases and in conversation with Mr. Crawford of Macdonalds Consolidated, they have bought none and [sic] do they intend to.

The feeling of the trade here, is as you sized it up while in Vancouver. They are not interested and are only anxious to see our resale maintained and Eddy matches sold."

(Exhibit 273)

On receiving reports that stocks of Eddy matches were accumulating at the Calgary branch of Tees & Persse, C. B. Nickerson wrote to the branch manager on November 6, 1946 :

"As I pointed out your territory is the only territory that this request has been made and I might say that the other territories are clamouring for all the stock we can give them. Naturally in view of the fact that the Western Match Company are offering matches, we are a little bit worried whether our jobbers are being a little cautious on account of this expected competition. You know well the situation regarding this new concern and there is no reason for hesitancy on their part to buy. I was indeed pleased to have your assurance that the extra stock would be delivered to the jobber and I sincerely trust that this will continue so.

As you know the Eddy Match Company is more than pleased to know that the jobbers are fully stocked. We are particularly anxious that they keep their stocks up to a height that they will have no reason to feel they are not getting enough supplies from Eddy's. Furthermore, the treatment accorded over the difficult years by the Eddy Match Company should dispell any thought of putting in an unknown brand and quality.

From our survey of the jobbers and their assurance that they were not interested in any other match Company, we feel that they intend to pass over any overtures made by the Western Match Company. However, their agents, Scott-Bathgate, whom as you know and they all know, sell direct to the consumer [sic] and if by chance any of our jobbers should attempt to market this new product, they will only be building up a channel of distribution for Scott-Bathgate who will undoubtedly sell direct. Furthermore, the jobber knows that the Eddy Match Company have protected their profits through the years since 1935 on their price maintenance policy and it would be suicidal for any jobber to jeopardize this excellent situation by attempting to sell these other brands. The jobbers are well aware of the fact that the Eddy Match Company have maintained that the match business should go through legitimate wholesale channels. Also, they have been very careful who they put on their direct list. The jobbers themselves, are in a position to see that this satisfactory situation continues."

(Exhibit 270)

In reporting on Western Match sales C. B. Nickerson adopted a practice followed in earlier years of using a code name : in this case "Springs" was used to designate Western Match. On November 9, 1946, he reported to E. P. Miller :

"This morning Scott-Bathgate are unloading a car of 'Springs' 300's, Pockets, and Safety's. The approximate number of cases in this car is between 900 and 1000 cases, mostly 300's.

Scott-Bathgate are only a few doors from Tees & Persse and unload on the same ramp so we are able to keep a check on any matches that come in a car."

Nickerson then added in long-hand :

"Also we can check to see what trucks call for pickups through the week." (Exhibit 253)

More detailed information was given in a letter of November 13, which contained the following :

"In a previous letter I advised you that we were checking on all pick-ups from Scott-Bathgate of 'Spring' matches. We have been able to secure the following information : H. Y. Louie Company picked up 5 cases, Ray's Stores 30 cases of 3's and 30 cases of Pocket, David Spencers 5 cases, Trans-Canada Wholesale picked up from 75 to 100 cases assorted, Vancouver Pacific Paper Company 25 cases of assorted, London Paper Company 30 cases of 3's, Vancouver Supply 25 cases assorted, and Overwaita Company 25 cases of 3's. We feel that by the above deliveries we caught most of them if not all. These all appear to be taken deliveries. You will remember that I reported that the Overwaita Company did not intend to buy any, however, this morning they had picked up as above 25 cases.

You will remember in their price-list and the information supplied by Mr. Reddin, it looked very much like they were going to deliver the matches to the wholesaler but this information proves that the jobber is to pick them up from Scott-Bathgate warehouse. We have not seen any trucks from A. & P. Slade whom as you know always handled Fire Chief Matches. However, it is quite possible that they have received some which we did not catch but the boys at the back have glued their eyes to Scott-Bathgate's shipping door throughout the day and will continue to do so."

The letter also had the following postscripts :

"P. S. Just had another report that W. H. Malkin picked up a few moment ago 20 Pockets and 50 3's I think perhaps these are to cover detail orders from a small chain or two who Malkin service. The drivers come to our door looking for Scott-Bathgate.

P.P.S. Just phone Hugh Crawford and he advised that MacDonald-Safeway are not buying a case." (Exhibit 280)

Eddy Match was well aware that its connections with leading wholesalers and the general attitude of the trade would make it difficult for Western Match to dispose of its production through regular jobbers. In a letter of December 10, 1946, a few months after Western's factory was completed, E. P. Miller wrote to C. B. Nickerson :

"Your letters with reference to sales made by the Western Match Company to customers in Victoria and in Vancouver seem to indicate that this new company is successful in getting some business at least on the first sales basis.

I note that you are quite optimistic that they are not selling a particularly large volume of matches even on a first coverage. There is one point, however, that we must consider, and that is that they have a factory in operation in which they have two match machines, and if these machines are operating eight hours a day regularly they should produce between seven and eight thousand cases of matches per month.

From reports, I would judge that they have not been able to sell this volume for the first month they have been in operation. Also, they probably have not produced this volume during their first month's production when they would possibly have all kinds of difficulty in breaking in new machinery and new help, and it would be a very good showing for them to produce any such volume during their first month's operation. They, however, should have technical knowledge supplied by their affiliates, the Pacific Match Company of Tacoma, Washington, U.S.A. to correct any manufacturing difficulties, and we can expect that they can produce a much larger volume in the months to come, which will mean that they will branch out and make every attempt to sell a volume of matches. We can therefore expect some real competition from these people when they are in production to the capacity of their machines, and if their production runs over their sales they will certainly have to look for business outside of British Columbia, because probably the entire volume of match business in this Province would be necessary for them to take care of their production, and we, having enjoyed this market over a period of a great many years, can not afford to lose any such volume of business.

I know you are watching their selling efforts carefully, but because of the fact that they have placed their agency in the hands of Scott-Bathgate who sell direct to retail stores and through them have more or less put it up to the legitimate wholesale grocers to also sell their product and push their sales for them in preference to those they have been selling for years, we cannot see how the legitimate wholesalers will fall in with a proposition of this kind, and probably the final result will be that the Western Match Company will claim that the jobbers will not support them and for this reason they are forced to sell direct to retailers — which is what Scott-Bathgate probably wants — and this will put us in the position that we will be dependent upon the legitimate wholesale grocers to defend us against this competition from Western Match Company who will by this action change the regular distribution of matches from legitimate wholesale distributors who have served the trade for years in a legitimate and generally accepted way.” (Exhibit 280)

For a time after it commenced operations Western Match was able to secure some export business, but as exchange difficulties developed opportunities for export trade became limited. In reporting a shipment of 2,000 cases to New Zealand, *Western Business and Industry* commented in its issue of January, 1948 :

“This shipment completes an export order for 19,000 cases of matches from Western Match Company Limited of Victoria for New Zealand, where the matches of earlier shipments received an excellent reception. Further orders are anticipated when exchange restrictions are removed.”

As Mr. Miller had anticipated, Western Match was unable to secure sufficient volume of business in British Columbia and tried to make sales in other provinces. In spite of the freight costs involved in making shipments to Eastern Canada, agents were appointed in several provinces and Western matches were advertised in at least one trade journal in the Maritime Provinces. It was reported that production difficulties continued to be experienced by the new company. Finally, an approach was made to Eddy Match Company and, although the latter already had its plant at Mission in operation, negotiations were entered into for the purchase of Western Match. The *Ottawa Journal* of March 7, 1949, carried the following dispatch :

“Esquimalt, B.C. March 6, — (C.P.) — Western Match Company which opened here three years ago, has been sold to the Eddy Match Company for \$210,000 Logan Mayhew, president, announced Saturday.

It is believed the plant here, employing about 30 workers will be closed down, as the Eddy Company already operates a match factory at Mission, B.C.”.

The result of the purchase of Western Match was the closing down of the plant in Victoria and the elimination of the one independent manufacturer of wooden matches in Canada.

VIII. RESALE PRICE MAINTENANCE

Eddy Match has endeavoured to bolster its position of substantial control of the manufacture of wooden matches by enlisting the co-operation of distributors in handling Eddy brands of matches through various arrangements to secure the maintenance of resale prices. In return for eliminating competition in price among jobbers in the sale of Eddy matches, the jobbers were expected to push the sale of Eddy brands and to be disinclined to take on or feature matches from other sources which might be sold on a competitive basis. The resale price arrangements of Eddy Match also appear to have been made in the expectation that, if competing brands of matches became available, jobbers could be led to insist on resale prices being set on such products at levels so close to the prices of Eddy brands that competition would be greatly reduced. Both factors, the co-operation of distributors anxious to maintain a fixed margin on the sale of matches and the difficulty in selling less well-known brands at the prices of Eddy brands, would lessen the inroads which any new match manufacturer might be able to make. At the same time Eddy Match stood ready to introduce its unlisted or fighting brands of matches at lower prices in any area where competing brands of matches were being distributed.

The first efforts of Eddy Match to establish a policy of resale price maintenance were made shortly after it commenced operations and before any other Canadian match manufacturer had entered the field. On February 1, 1928, in establishing prices to jobbers on a prepaid freight basis, taxes included, Eddy Match indicated that one reason for the change was to set the resale prices for the jobber to follow. The policy was set out in the paragraphs quoted below from the circular sent to the jobbing trade in the western provinces. The announcement to jobbers in Eastern Canada differed only slightly—provision being made for resale in lots of 10 cases or more at a lower price.

"These prices give you the same net cash cost as the prices quoted in our circular price list issued on January 3rd, 1928, but we have changed our method of invoicing to simplify the present method, and in order that one price list may answer as Jobbers' INVOICE LIST and RESALE LIST.

For the past few years there has been a demoralized market on matches, and many jobbers have sold matches at very small profits. In naming the resale prices on the enclosed list we have done so with the idea of providing a satisfactory profit for jobbers handling our brands of matches.

We realize there are various brands of matches, purchased at old prices, in the hands of jobbers who may be inclined to sell these at prices below the resale prices named by us for brands of the same size, style and pack. We would point out to such jobbers, however, that they should immediately place on such brands, prices in accordance with resale prices named in our February 1st price list, in order to prevent a demoralized market after February 1st.

We hope all jobbers will give us their co-operation and maintain resale prices and we can only point out that it is only with their co-operation that a stabilized market can be obtained.

The prices quoted give jobbers the following profit, when purchased in less than carload lots and invoices are paid within ten days, sixteen and two-thirds percent on less than five cases; and fourteen percent on five cases and over.

We believe you will agree that we have provided a satisfactory profit for jobbers distributing our brands, and we request the maintenance of these prices in order that we may continue resale prices on a proper basis of profit for you."

In giving evidence in regard to the circulars dated February 1, 1928, E. P. Miller distinguished between naming a resale price and fixing a resale price. He said that Eddy Match had not fixed a resale price because :

"There was no penalty. You cannot have a price policy, in my opinion, without having a penalty; that is, it would be no good; if they did not maintain it, nothing would be said about it."

(Evidence, p. 333)

At a later point Mr. Miller said :

"Well, at that time... 1928... there was a great deal of price cutting, so-called, which

demoralized the markets and we were under a great deal of pressure from the wholesale trade to attempt to put in a rigid price policy which we always refused to do..."

(Evidence, p. 334)

Although Eddy Match continued until 1933 to name list prices which were intended to be jobbers' resale prices, the arrangements were affected from 1929 on by the competition among distributors as well as from new match manufacturers.

In a letter dated September 21, 1929, C. B. Nickerson reported to E. P. Miller regarding efforts he had been making in Saskatoon to get wholesalers to maintain a minimum margin of 7 percent. He added :

"I believe that we can get the Trade to co-operate with us in Saskatoon on our present proposition but the more I talk this with the Trade the more I feel that the loyalty discount if [sic] the only solution to our problem for all jobbers express the desire to get 10% and they would be perfectly satisfied. On top of that the loyalty discount would mean that they could not purchase opposition goods and that in itself would stop opposition goods from securing any business on the territories. There is no doubt that the whole Trade feel that they do not want to handle anything but Eddy's Goods and any solution to this problem that would show them the 10% would have the desired effect." (Exhibit 184)

Correspondence in 1932 indicates that C. B. Nickerson was endeavouring to have wholesale merchants in Winnipeg agree on selling prices for the various brands of Eddy matches which would be named in a circular. He wrote to E. P. Miller on November 15, 1932 :

"You will notice by the sample of Canada fours that I sent you that these matches have the black and white tip while the matches that Macdonalds had, had the blue and white tip. As I remarked in my previous letter on this report, that they looked like our Blue Ribbon, also the splints were considerably thicker than the sample I mailed you.

I also neglected to give you the names of the jobbers who agreed to the selling list which I sent you. They are as follows :

| | |
|------------------------|-----------------|
| Campbell, Wilson Bros. | Western Grocers |
| George McLean | Jobin Marrin |
| Codville Company | Weidman Bros. |
| Merchants Consolidated | Walter-Woods |

This covers all the large jobbers.

It will be necessary for Yorkton to be lined up on this, as it is in direct competition with the Winnipeg jobbers and if Yorkton should quote under this price it would naturally upset all the Winnipeg plans.

You will notice by this circular that I have been very careful to state that the following selling prices have been agreed upon by the Winnipeg jobbers and in my talk with these jobbers I pointed out very clearly that the Eddy Match Company is not putting in a list nor are they placing any penalty on the jobbers who break the list and that my services were more as a go between and a matter apart from that of an employee, of the Eddy Match Co." (Exhibit 175)

Mr. Miller commented on the proposal as follows in a letter of November 18 to C. B. Nickerson :

"I was quite surprised also to note in this letter that on December 1st, the jobbers in Winnipeg have arranged to place a price on all our brands of matches... This will give them an 8% profit on cost, and when I look back to the time when we struggled in Winnipeg to try and put this proposition over, without any success, there is some satisfaction in learning to-day that the jobbers have tried their own plan and are sick of it and have now come back to the plan that we tried to have them work on, I think about two years ago.

... I can only hope that the jobbers are sincere in their efforts to try and get a profit out of matches because when they are making a profit they are better satisfied and are not so susceptible to low prices which might be offered by competition which comes along from time to time. You can rest assured that the arrangements certainly meet with my approval, and if we could only make a penalty that would apply against any jobber that did not keep to the arrangement, everything would be O.K., but of course we cannot do this..."

(Exhibit 174)

This letter clearly indicates Mr. Miller's interest in set margins on the sale of Eddy matches as an inducement to jobbers to refrain from handling matches at "low prices which might be offered by competition".

The Vancouver Tobacco and Candy Jobbers' Association in December, 1932, urged Eddy Match to establish a system of resale price maintenance for Eddy brands in British Columbia. Commenting on the proposals in a letter of December 28, 1932, to C. B. Nickerson, E. P. Miller wrote :

"I have your letter of December 19th attaching copy of a letter received from the Vancouver Tobacco and Candy Jobbers' Association at Vancouver with reference to price maintenance.

As you can well imagine, I am not in the least interested in this price maintenance policy, which would only result in our 'holding the bag' for our competition.

I really do not think our friend Mr. Badenoch, expects he is going to get a price maintenance on Eddy matches from this letter. There would certainly be no advantage in our trying to force maintenance of prices on Eddy matches as long as we have competitive matches being offered in the territory, and if the time ever comes when we do not have it, it would be illegal for us to force price maintenance; therefore, there seems to be little likelihood of our getting very far with such a proposition." (Exhibit 185)

Further action by Eddy Match to secure acceptance of a plan of resale price maintenance is not evident until 1934.

1. Adoption of Resale Price Plan by Three Match Manufacturers

The efforts of jobbers to have an established margin on the resale of matches in Eastern Canada were favourably received by the manufacturers and in April, 1934 similar announcements as to policy were made by Canada Match, Commonwealth Match and Eddy Match. The trade circulars of Canada Match and Commonwealth Match were both dated April 7, 1934 and were phrased in very similar language. The circular of Eddy Match was dated April 10, 1934 and while differing somewhat in language gave notice of a similar policy. The plan in the case of each manufacturer applied to the sale of the 300 box of household matches. A jobbers' resale price was named and if the wholesaler observed this price on all of his sales he was entitled to receive a rebate of 35 cents per case. Eddy Match and Commonwealth Match named the same list price of \$9.40 less discounts and the same jobbers' resale price of \$9.50. Canada Match named a jobbers' resale price of \$9.35, 15 cents lower than its competitors, but did not state any list price to jobbers. The conditions governing the payment of the rebate of 35 cents per case were given in the same terms in the circulars of both Canada Match and Commonwealth Match, as follows :

"This amount will be paid covering 60 days periods from date of shipment when this minimum selling price has been maintained on ALL of his sales, such settlement to be made not later than 30 days after the expiration of such 60 days period." (Exhibit 26)

The conditions as to payment were expressed as follows in the circular of Eddy Match :

"We ask your co-operation in your re-sale price, and providing you do not sell any of these brands at below a *minimum* price of \$9.50 per case, we will rebate to you thirty-five cents per case upon assurance from you that you held to this minimum price of \$9.50 per case." (Exhibit 26)

The adoption of a similar policy in regard to resale price maintenance by all three match companies in April, 1934 indicated a change in the competitive situation. That there had been discussions between officials of Canada and Commonwealth at least as early as July, 1933 is shown by a letter of July 8, 1933, from P. A. Conway, sales manager of Commonwealth, to J. W. Charette which read :

"Allow me to thank you for the courtesy extended to me on Thursday of this week when I called upon you.

It is my belief a plan can be arrived at which will work out to our mutual advantage. Mr. Becker and myself will be present at the meeting which you called for July 17th, at two thirty [sic] in the afternoon and to be held in your office in Ottawa." (Exhibit 13)

The circulars of Canada Match and Commonwealth Match of April 7, 1934, had been addressed to jobbers in "Eastern Canada", whereas Eddy Match's circular referred to jobbing distributors in the Maritime Provinces, Quebec and Ontario. It is not clear whether the same territories were intended to be included by all three companies. At all events, the plan appears to have persisted longer in Ontario than in other eastern provinces.

One customer of Canada Match at this time was National Woodenware Company, St. Thomas, Ont., which carried on a brokerage business in several provinces. This company wrote to Canada Match on November 6, 1934, and referred to information received from an Eddy salesman that the prices of packages of 300 matches had been wide open in Quebec for the past six weeks. The letter went on to say that an order to be delivered to a customer in Quebec had been offered to the representative of Canada Match at a price of \$9.00 but would not be filled except at \$9.25. National Woodenware stated in the same letter that it was assisting in the maintenance of the resale price in Ontario. (Exhibit 62)

Efforts on the part of Eddy to secure the maintenance of resale prices in Ontario were apparently continued for some time. On June 14, 1935 Eddy wrote to one customer as follows :

"On June 14th we invoiced you #2473 5 cases of Silent matches at \$9.40 per case List, according to our circular letter of April 10th, 1934.

We assume it is your intention to co-operate with us by maintaining a minimum re-sale price on these matches of \$9.50 per case in order to entitle you to the special rebate of 35¢ per case for this co-operation." (Exhibit 280)

The records do not show when the 35 cents rebate plan of resale price maintenance was definitely abandoned but more comprehensive plans, which have persisted, were introduced by Eddy Match in the Maritimes and in Western Provinces in 1935.

2. Revision by Eddy Match of Arrangements in Maritime Provinces

A resale price of \$9.50 per case of 300's on sales by wholesalers to retailers in the Maritime Provinces had been named by Eddy Match in its circular of April 10, 1934 but some jobbers urged that a resale price of \$9.75 be named. E. P. Miller wrote to R. G. Schofield of Schofield & Beer, Saint John, N.B., on January 28, 1935, in regard to the suggested higher resale price :

"I have your letters of January 25th and 26th, both with reference to resale prices in the Maritime Provinces.

With reference to meeting a committee in Montreal during the week of February 6th; I have no objection to meeting this committee and to your being here at the same time.

I note that you are having some trouble with the Eastern Hay & Feed Company to have them agree to the \$9.75 price, and I also judge from your letter that both Mr. Puddington and Mr. Barbour think we should put in this \$9.75 price, even if the Eastern Hay & Feed Company will not agree to it. This is a debatable question, and as the matter stands at the present time the \$9.50 price is agreeable to everyone and is being maintained, and if they would force the \$9.75 price, there is the possibility that it might be detrimental to the general situation if some of the jobbers took this opportunity to break away entirely and push the sale of other matches at lower prices than at the present time, therefore, as we see it, it is questionable whether or not the jobbers who are in favour of the \$9.75 price would be better off with this price than they are with the \$9.50 present resale.

Personally, I do not think the committee should insist on a \$9.75 price at this time, but should await the working out of the problem a little longer to see if they

cannot get the Eastern Hay & Feed Company into line; however, if they are going to be in Montreal in the week of February 6th and they wish to have a meeting at that time, I shall be very glad to meet them." (Exhibit 205)

Action to establish a resale price maintenance policy with a price of \$9.75 on boxes of 300's was taken by Eddy Match in February, 1935. E. P. Miller wrote to R. G. Schofield on February 13 that the policy had been decided upon at a meeting in Montreal with Maritime jobbers :

"We are enclosing copies of a circular letter which is being mailed to the jobbers in your territory to-day, naming the policy which you are already familiar with and which was decided upon at the meeting we held with the jobbers of the Maritime Provinces in Montreal on Saturday, February 9th.

This policy, as you already know, has been agreed upon one hundred percent by representatives of all territories in the Maritime Provinces, and as these jobbers have already pledged their support, we anticipate that this plan will be accepted by all the distributors of Eddy's matches in your territory and we also anticipate good results." (Exhibit 206)

The circular Mr. Miller referred to was dated February 14 and was addressed "TO THE JOBBING DISTRIBUTORS IN THE MARITIME PROVINCES". The first three paragraphs read :

"Effective as of this date, the minimum resale price on EDDY'S brands of #3 size matches in the Maritime Provinces will be \$9.75 per case. This price has been decided upon after many requests from our customers in the Maritime Provinces, which has convinced us that the desire of the majority of Match distributors is for this minimum \$9.75 price.

We will invoice you on and from this date, all Eddy brands of #3 size at a jobbers' list price of \$9.43, less the usual discount of 2% cash 10 days and 2% carload discount for carload purchases.

We ask your co-operation on the minimum resale price of \$9.75, and providing you do not sell below this minimum resale price, and furnish us quarterly the enclosed letter properly signed, we will allow you at the end of each quarter, a discount of four percent (4%) on the jobbers' invoiced list price of \$9.43, this allowance to be allowed for your co-operation." (Exhibit 165)

The letter to be signed in claiming the discount contained the following declaration :

"We hereby certify that we have maintained the minimum resale price of — per case on our sales of EDDY'S listed No. 3 size brand of matches from to

To our best knowledge and belief, this minimum resale price has been adhered to by all our salesmen and employees, and we are therefore entitled to the 4% discount offered by the Eddy Match Co. Limited for this co-operation.

This declaration is conscientiously made, knowing that it is of the same force and effect as if made under oath and by virtue of the Canada Evidence Act."

This plan differed from that introduced in 1934 in that it provided for a 4 per cent discount on a quarterly basis if the resale price had been maintained by the jobber, instead of a rebate of 35 cents per case. The 4 per cent on the price of \$9.43 named in the circular would amount to 37.72 cents per case. The circular said the plan was to go into effect immediately and pointed out that, provided the suggested resale prices were adhered to and the jobber received the 4% discount, the net cash cost of Eddy's #3 brands to him would be the same as it had been.

After introducing its resale policy in the Maritime Provinces in February, 1935, Eddy Match sought jobbers' support on the basis that it was protecting the jobber's profit. E. P. Miller pointed out the advantage to the jobber in the price maintained lines in a letter of March 4, 1935, to Schofield & Beer :

"We acknowledge your letter of February 27th, together with the original telegram received by Messrs. Jones, Schofield, Hatheway Ltd. from the Canada Match Company,

quoting them a price of \$8.45 for the #3 size less 2% and 2% in 25 case quantity, giving a net price of \$8.12 which is 56¢ below our net cash cost of \$8.68.

As I understand it, the Canada Match Company has not named resale prices in the Maritime Provinces; therefore, in consideration of our naming resale prices and co-operating with the jobbers in the territory, none of the jobbers should consider the sale of Canada matches, and if they do so they will break down the profitable prices that are now existing in the territory, and I understand that this is the position that Jones, Schofield, Hatheway are taking with reference to this quotation, and they are absolutely right." (Exhibit 207)

On receiving a report of a purchase of a car of Canada matches by a company in the Maritime Provinces, E. P. Miller wrote to Schofield & Beer on September 9, 1935 :

"We have your letter of September 3rd also, and we take it from this letter that there is no doubt but what the Eastern Hay & Feed Company bought a car of Canada matches. It is, of course, quite important that we keep a close check on this company to find out whether they intend to hold this brand to the resale prices that have been named by us for the protection of the jobbers' profit in the Maritime Provinces, and we would like very much to know what price these people are placing on Canada matches, because we cannot possibly hold and maintain a resale price that gives the distributors a satisfactory profit and have some of the other jobbers push the sale of Canada matches at a large differential in price, and for this reason we are very anxious to know what the Eastern Hay & Feed Company intend to do with this car of Canada matches." (Exhibit 207)

As long as competition from independent manufacturers was evident, Eddy Match stressed its programme of resale price maintenance as a reason why jobbers should give preferred distribution to Eddy brands of matches. At the same time it warned jobbers that it could not be expected to give protection on the prices of Eddy brands if jobbers handled other matches which could be resold at lower prices.

3. Establishment of Resale Price Plan in Western Canada

The announcement of the resale price maintenance policy in Eastern Canada by the three match companies in April, 1934, led to renewed requests from jobbers in some parts of Western Canada for similar control of prices.

In reply to an inquiry from the secretary of the Vancouver Tobacco and Candy Jobbers' Association, E. P. Miller wrote on July 30, 1934 :

"We acknowledge your letter of July 19th with reference to a new match selling agreement in Eastern Canada which the writer discussed with your president, Mr. McKelvie, when he was in Montreal a short time ago.

We are pleased to enclose two copies of a circular which was issued by ourselves to the jobbing trade in the provinces of Quebec and Ontario on June 1st of this year.

While we do not consider it is impossible to inaugurate some such selling plan in British Columbia the conditions which exist in the territory at the present time are such that it would be impossible and probably detrimental to ourselves to go into a policy of this kind without the co-operation of competitive match manufacturers and distributors who are selling competitive brands of matches at low prices in the British Columbia territory.

The plan explained in the enclosed circular did not apply to our complete line of matches and the ultimate success of this plan is not assured at the present time. You will therefore appreciate that until such time as our experience with this plan assures a greater success than the present indicates, while we are vitally interested in protecting jobbers' profit in the sale of Eddy's matches, we wish to have some certainty of success before going into further agreements with reference to resale prices and also were we to consider a similar plan in other territories on account of peculiar conditions existing we would have to include practically all of our brands in any policy which may be undertaken in British Columbia." (Exhibit 208)

The possibility that competitive matches, particularly those of Canada Match, might continue to be distributed in Western Canada without resale price control was apparently a factor in leading Eddy Match to withhold a resale price plan for the western provinces. Canada matches were being distributed in Vancouver at this time by the W. H. Malkin Company, Limited. There appear to have been protracted

negotiations between other jobbers and the Malkin company in an effort to secure the adherence of the latter to a plan of resale price maintenance for Canada matches. By September, 1934 Eddy Match was considering introducing a resale price maintenance plan in Western Canada. Commenting on factors to be considered in establishing resale prices C. B. Nickerson wrote in a letter of September 1, 1934, to E. P. Miller :

"Of course, Mr. Miller, it comes back to the very vital point, what are the Commonwealth prepared to do ? Will they play ball or will they continue to do as I have been advised in letters from other points, to go out and name a higher price and then sell after the new price comes in at the old. Apparently from these letters I find that this is very open and that they have made no effort to conceal the fact that they will sell Goodlites below the new list. If we can depend on them to play the game we then only have to consider Malkin and Canada in Vancouver." (Exhibit 184)

Earlier in the same letter Nickerson had said :

"... I discussed with Mr. McKelvie the fact that arrangements with W. H. Malkin must be put in writing. I understand, that W. H. Malkin are willing, providing this agreement is put into effect, which they are putting in their letter, to work on a differential of 30¢ a case."

On October 16, 1934, A. Badenoch, secretary of the Vancouver Tobacco and Candy Jobbers Association, wrote to E. P. Miller :

"I also enclose you a copy of the letter which we received from the W. H. Malkin Co. Ltd. regarding 'Canada' matches and price maintenance. Malkins control the distribution of 'Canada' matches in B.C. and have expressed their desire to maintain a resale price showing a fair margin of profit all round." (Exhibit 184)

The copy of the letter enclosed contained the following :

"Confirming our 'phone conversation in reference to the price of Matches and the differential which we feel we should have between the price of Canada Matches and Eddy's lines, we would say that we feel there should be a differential of 25¢ per case between Canada 50s and 300s and Eddy's Sesqui 50s and Owl 300s; and a differential of 35¢ per case between Canada 400s and Eddy's different brands of 400s."

(Exhibit 211)

Replying to Mr. Badenoch on October 30, E. P. Miller wrote :

"We acknowledge your letter of October 16th., together with copy of a letter addressed to you under date of September 24th by the W. H. Malkin Company Limited, and a list of the members of your Association in good standing.

We have examined closely the letter you received from W. H. Malkin Company Limited, and we cannot find any statement in this letter that would bind the W. H. Malkin Company to sell matches at any stated price, and in addition, any attempts to control prices on all brands of matches, to be successful, would result in an agreement that we are advised would be illegal.

The efforts of your Association have now reached the point where a stretch of the imagination would indicate an agreement from W. H. Malkin Company to maintain a certain price on Canada Match Company's brands of matches, also an indication from the Commonwealth Match Company of their agreement to a price maintenance policy, and if we agreed to your requests for price maintenance, this combination of agreement with your Association would constitute an illegal act by all parties, and manufacturers, distributors and jobbers equally would be liable for entering into any such agreement.

It is very readily recognized that any price policy, other than one that will absolutely bind all manufacturers and all wholesale distributors, is of little value in protecting the jobbers' profit, and as to draw up such an agreement is difficult against existing law, it is very questionable whether any such agreement should be entertained.

With reference to the policy attempted in Eastern Canada; this policy has not proven successful, and at best it was an attempt to obtain the co-operation of distributors and manufacturers, and experience with this has proven that it is far from a policy that would protect prices. In face of this experience, it seems certain that any policy along such lines is unwise and will not produce the results that you and ourselves want."

(Exhibit 185)

Early in 1935 Eddy Match was ready to proceed with a plan of resale price maintenance in Western Canada. E. P. Miller wrote to C. B. Nickerson on March 5, 1935, in regard to the proposed arrangements :

"We are enclosing a rough draft of a letter addressed to our customers in Western Canada — a form of declaration — a minimum resale price list and a jobber's price list giving prices on all brands in all territories in Western Canada. The letter and the form of declaration is the same for all provinces, the prices, of course, are different.

We are sending this to you by Air Mail and after you have had an opportunity to go over all of these letters and price lists, we would like to have you write us, pointing out any thoughts that you might have that this would not be satisfactory to Western Canada customers.

We have given considerable thought to this matter, and we believe that the enclosed plan, which we are ready to inaugurate, is one that will be acceptable to our customers in Western Canada and will be an answer to their demand over a long period of time for some price maintenance policy.

You will notice that we have named resale prices on less than 5 cases and on 5 cases and over, and that we have also incorporated in the resale price list the 1% cash discount. The prices we have named establish on the selling price approximately 11% profit on carload cash cost and 9% profit on less than carload cash cost providing the prices are maintained, thus entitling the customer to the 4% discount for price maintenance.

In naming prices at various times, the jobbers have named prices themselves, which in most instances never yielded a profit of over 8% on the net cash carload cost, and the prices which we have named on these lists will provide this profit even when the matches are sold in 5 case lots at the price named and 1% cash discount allowed. On all of their sales the profit will be higher than the jobbers have enjoyed on prices that they have from time to time agreed upon amongst themselves.

You will notice in the second last paragraph of our letter we are making a veiled suggestion and what we intend to imply is that no jobber should buy matches from a competitor who does not provide them with a resale printed price list and a policy that will protect their profit, and I think that you and our brokers in Western Canada will be able to point out this to the trade so forcibly that the customers in Western Canada will not buy matches from any other match manufacturer who does not provide a policy equal to ours for the protection of their profit, and will go as far as to refuse to handle matches from any other match manufacturer who does not provide such a policy.

The jobbers have been asking for a very long time for some kind of a policy that will protect their profit, and we believe that the requirements which we place in the form of the declaration which is enclosed, is strong enough so that we shall have maintained resale prices in Western Canada on Eddy's matches, and in return for providing such a policy, we feel that we shall get almost one hundred percent support from our customers in Western Canada.

Please go over these letters and price lists carefully, and if there is anything that you think should be changed and it can be done, we will be very glad to consider your suggestions, but we would like to have them by wire just as soon as possible." (Exhibit 194)

The "veiled suggestion" referred to in Mr. Miller's letter, "that no jobber should buy matches from a competitor who does not provide them with a resale printed price list and a policy that will protect their profit" took the following form in a circular dated April 1, 1935, which Eddy Match sent to its customers in Western Canada :

"We believe you are entitled to and are interested in a reasonable profit, and in your own interest and for the protection of your profit, we trust you will feel that other match manufacturers should publish resale prices. We name these minimum resale prices upon request from the majority of our customers, and feel that each distributor should request from other match manufacturers, equal co-operation in order that we may continue this policy for reasonable profit on EDDY'S matches. If co-operation is given, it will result in a more equal distribution of profit from the manufacturer to the consumer without affecting the consumer's cost.

We hope you will continue to push the sale of EDDY'S matches, and we would appreciate a reply from you assuring us of your co-operation on this plan."

Prior to this, further efforts had been made to secure the co-operation of the Malkin company in observing a scale of prices in the sale of Canada matches. On March 6, E. P. Miller had written to C. B. Nickerson :

"You will, by the time you receive this letter, have received my letter enclosing a price maintenance policy, and I hope that after your talk with Mr. Taylor, he will fulfil his promise of getting a better price for the Canada matches he sells. and that it will not be necessary for the other jobbers to start a price war against him on account of the low prices he has been quoting on Canada matches.

If and when we put this price maintenance plan into effect, I would anticipate that the Association will bring more pressure to bear on Malkins if they do not fall in line with better prices on Canada matches, and I feel optimistic that in the not too distant future, you will have better conditions in the Vancouver territory." (Exhibit 208)

Nickerson's efforts were apparently successful as he was able to send E. P. Miller on March 26, 1935, a letter dated March 25 from the Malkin company addressed to A. Badenoch of the Vancouver Tobacco and Candy Jobbers Association which read as follows :

"Referring to our conversation of a few days ago, re your being able to secure a maintained price on standard lines of matches.

This is to advise you that we will be very pleased to co-operate with you in maintaining a standard price on Matches, with the further understanding that we will be allowed to sell the Matches manufactured by the Canada Match Company at a list, which list shall not be lower to a greater extent than 25¢ per case than the list on the standard brands of Matches." (Exhibit 189)

E. P. Miller, replying to C. B. Nickerson on April 1, wrote :

"I have your letter of March 26th, enclosing a letter signed by Mr. Taylor of the W. H. Malkin Co. Limited addressed to Mr. Badenoch, with reference to maintainance of a price of not lower to a greater extent than 25¢ per case than the list on standard brands of matches.

I congratulate you on having Mr. Taylor give this letter to Mr. Badenoch. Rather than return this letter to the Association or Mr. McKelvie, I am returning it to you because I do not want to be in the matter at all and I think the best thing is for you to return it to where you got it." (Exhibit 189)

The acceptance by Eddy Match of the 25 cents differential for Canada matches may be explained by the expectation that such a small differential would not result in any large sales of Canada matches. Such a view was expressed in a letter which C. B. Nickerson wrote to E. P. Miller on April 4, 1935, in which he said :

"In regards to the W. H. Malkin Co. Limited. I had a long conversation with Mr. Dick Malkin, who is Sales Manager there, and he objected to the amount of profit we allowed them, claiming that we had taken the cash discount into consideration and they needed more profit. He also stated that in talking to Mr. Taylor he had advised him that 25¢ per case below our resale for Canadas, they were not going to sell many Canadas. He further stated that he had 350 cases on the floor and he wanted our permission to clean them up at cheap prices. I told him that as far as we were concerned it was a matter between the Association and himself, but warned him that if he should throw these on the market it would, undoubtedly, upset all the price arrangements, as other jobbers would be sure to meet him. I do not believe, though, that they are prepared to take this responsibility." (Exhibit 208)

Some months later, on October 8, 1935, E. P. Miller wrote to C. B. Nickerson :

"We have your letter of October 1st with reference to statement made by W. H. Malkin on one or two occasions that they could sell certain accounts, matches cheaper than MacDonalds.

You undoubtedly are correct in assuming they referred to Canada matches, which are 25¢ per case below our resale price in Vancouver.

When we put our price maintainance policy into effect, I recall several statements by Malkin that they could not sell Canada matches at 25¢ differential in price, and up to the present time, I would estimate that this statement has been 100% correct.

With reference to your inquiry as to how many Canada matches have been shipped to Vancouver since the resale came into effect, as far as I have been able to find out, there has not been a car shipped to Vancouver since we put the price maintenance policy into effect." (Exhibit 214)

The resale price maintenance plan introduced by Eddy Match in Western Canada was broader than the plan followed in Eastern Canada in that it embraced all Eddy's listed brands and not merely boxes of 300's. The provision for a discount of 4 per cent to distributors observing resale prices, which had been embodied in the plan for the Maritime Provinces a few months previously, was followed in Western Canada. The Eddy Match circular of April 1, 1935, to which reference has already been made, contained the following description of the price maintenance plan :

"In order to eliminate the varying resale prices on matches and protect our distributors' profit, we wish to call your attention to a change in our method of selling and invoicing our various brands of matches, effective April 1st, 1935.

We are enclosing new price lists, giving jobbers' cost prices on EDDY'S brands of matches. You will notice that under this plan your net cash cost remains the same, and that these new list prices do not change your present net cash cost. These list prices will be subject to the usual jobber's discount of 2% cash 10 days and 2% Carload Discount for carload quantity purchases and a further allowance of four percent (4%) on the jobber's invoice price for your maintenance of minimum resale prices as per the enclosed jobber's resale price list. Providing you do not sell below these minimum resale prices, we will allow you four percent (4%) quarterly on or about April 1st — July 1st — October 1st and January 1st, on your purchases of EDDY brands of matches, and upon receipt from you of your signature upon the enclosed form. Please send this form to us, properly signed, as soon as possible at the end of each quarter, which will entitle you to the allowance offered and assure you of a reasonable profit. We enclose jobber's cost price list and a supply of minimum resale price lists."

In order to have the same net cash cost under the new plan it was necessary for the jobber to obtain the 4 per cent discount for resale price maintenance as well as the regular cash and quantity discounts.

It is clear that in establishing resale price maintenance Eddy Match hoped not only to encourage distributors to handle more Eddy matches but also to limit as far as possible price competition from other brands. This hope was based on the expectation that jobbers anxious to obtain the assured margin on sales of Eddy matches would assist in seeking to prevent the sale of other matches at lower prices. E. P. Miller referred to the greater control expected under the resale price arrangements in a letter of October 10, 1935, to C. B. Nickerson in outlining reasons why the plan should not be introduced in the Fort William territory :

"There are some matches sold by dealers outside of the jobbers located in the Fort William Territory and it would be difficult, if not impossible, to control these jobbers' prices along the border line of the territory. It seems, therefore, that it would be unwise for the present to consider trying to inaugurate a price maintenance policy in Fort William, especially so as the jobbers themselves have an agreement which is working quite satisfactorily in the territory, but this agreement, of course, does not give us the same hold on them to combat sales of competitive matches at below the resale price which they agreed on, and the same policy that we have in Western Canada would be much better in this regard, but it seems for the present we shall have to pass this up."
(Exhibit 171)

Eddy Match, however, carefully avoided making the observance of resale prices on matches made by other manufacturers a stated condition of its resale price maintenance plans. E. P. Miller outlined the company's policy in this regard in a letter of October 18, 1935, to C. B. Nickerson :

"With reference to Mr. Persse's letter to you of October 7th dealing with this same subject, in which he made the suggestion that it might be advisable to issue a carefully worded general circular to all of our customers pointing out that we instituted the price maintenance policy in order to give distributors a fair margin of profit, but that unless all matches handled are sold at the same price as EDDY'S brands the company will have to withdraw its resale price plan, I would like to issue such a circular, but at the same time I would not think of doing so. You will remember that when we discussed our plan, we pointed out at that time that we would suggest to our different customers that if they wished this plan to be successful they should insist that every other match manufacturer who tried to obtain business from them, maintain the same resale price that we had named, and we have been fairly successful in getting the co-operation of the jobbers

in this way, but for us to issue a circular insisting on the maintainance of other manufacturer's matches at a resale the same as ours would be dangerous, because we have been advised by our attorneys against any such action; therefore, the only thing we can do is to suggest to our customers that for the protection of their profit they should insist on other match manufacturers placing the same resale prices as we place on our brands because if this is not done we would be forced to withdraw our price policy, which would be most detrimental to the jobbers on account of their loss of profit on Eddy's brands which they sell." (Exhibit 209)

The clear indication by Eddy Match that it could not be expected to maintain its resale price plan if matches made by other manufacturers were not also price maintained was used with marked effect. On June 13, 1935, E. P. Miller had written to C. B. Nickerson :

"I am very glad to have your statement that you do not think we have lost any volume on account of our price maintainance plan, and I am inclined to agree with you on this, because it does not seem possible that the jobbers will not support us on the plan which supports their profit. At the same time, you have the Codville situation at Winnipeg, and I am not prepared right now to say just what action we should take with reference to this account, but would suggest that as soon as you get a further report from Winnipeg as to what our friend Bowser is doing with reference to Canada matches, you then bring this matter up for decision as to what we shall have to do. It would seem that between Mr. Perry, Secretary of the Association, and the rest of the jobbers, that sufficient pressure could be brought upon Mr. Bowser, even though we know he is a tough customer, so that he will discontinue the sale of Canada matches at below the resale prices..." (Exhibit 208)

Later in the month E. P. Miller received a further report from Nickerson to which he replied on June 19 :

"Since you wrote your letter, you have received the assurance from Mr. Persse that Codville Company have agreed to place the same resale price on Canada matches as our resale price on our brands, which has been brought about by the pressure of the other wholesalers on Mr. Bowser, and it will be a happy conclusion to the situation." (Exhibit 208)

Some years later the possibility of a similar situation developing over Federal matches led C. B. Nickerson to refer to the withdrawal of resale prices by Eddy Match in the Maritime Provinces to reinforce his argument that jobbers should not handle competitive matches for resale at lower prices. He wrote to Tees & Persse, Winnipeg, on July 14, 1939 :

"With further reference to our conversation regarding match resale prices which, you will remember, I told you might be withdrawn if a certain jobber, or jobbers, should sell brands of matches of Companies who do not protect their profits. I have just received word from Mr. Miller that it has been necessary to withdraw our resale price policy in the Maritime Provinces because it got to the point where we had been holding the umbrella with high resale prices and profits for jobbers who were not willing to co-operate, and there is no question but what we have got to protect ourselves and if we can do so by getting the co-operation of the jobbers and their refusal to handle matches from other manufacturers who do not protect their profit, we are contented to carry on the resale price plan, but we certainly will not be contented to carry this on if a jobber like Codville takes on other manufacturer's matches and sells them at lower prices than our own." (Exhibit 208)

The resale price maintenance plan introduced in Western Canada by Eddy Match in April, 1935 has been continued since that time. It appears that Commonwealth Match introduced a similar plan of resale price maintenance in Western Canada at the same time which it carried on until at least 1938. Commonwealth Match continued to issue resale prices for Western Canada after it had given up the 4 per cent discount plan. At times Commonwealth Match sold to jobbers at prices lower than those of Eddy Match without, however, making any reduction in its resale prices. In 1935 C. B. Nickerson became anxious that such lower prices should not result in any break-down of resale prices. Commenting on a report that Commonwealth matches were being offered to jobbers in Edmonton at 50 cents below regular list, E. P. Miller wrote to C. B. Nickerson on October 29, 1935 :

"I note you feel that if these prices are being quoted by the Commonwealth Match Company, some jobber is liable to get hold of them and slash prices, but in this connection, the Commonwealth has published resale prices in Western Canada on the same price maintenance policy that we named our resale prices on April 1st of this year, and in the face of this I do not see how they could allow any jobber to sell below the resale price that they have named, and I hope they will not do so.

Up to the present time, I have not heard of any jobber breaking the resale price on Commonwealth matches, and unless this is done I do not think we will suffer from their activities, even if they do quote a lower price to the jobbing trade.

I would suggest that you make a check-up on the resale prices on your next trip, and if there is any breaking of these prices we might be able to appeal for co-operation, as the maintenance of these resale prices is best for both our competitor and ourselves."

(Exhibit 231)

It may be noted that some time in 1935 the two officials of Commonwealth who were responsible for sales policy, W. A. Becker and P. A. Conway, withdrew from the management of Commonwealth Match and common direction of Eddy and Commonwealth became progressively closer from this time on. W. B. Rennick succeeded P. A. Conway as sales manager of Commonwealth in September, 1935.

The value which Eddy Match attached to its resale price plan in Western Canada as a means of preventing the sales of competitive matches at prices lower than those established for Eddy brands is indicated in a letter of January 4, 1937, to F. T. Barbour, of G. E. Barbour Company, Limited, Saint John, N.B., in which E. P. Miller wrote :

"With reference to your inquiry as to the experience in other territories, especially in the West where there is a list ; there is no comparative case in the West. The Western jobbers will not resell other brands below our resale list and have steadfastly refused to give support to any manufacturer who attempts resale prices below our list, for the reason that they fear this will break down their satisfactory profit on our matches, which are sold in by far the largest volume."

(Exhibit 215)

Referring to the margins provided for jobbers under Eddy's resale price plan, C. B. Nickerson wrote in a letter of April 16, 1938, to E. P. Miller :

"... we have deliberately gone out and established a higher resale plane for our product than the wholesale grocer would have done had the prices been left open for you can remember over the years we did not have price maintenance, the jobbers were satisfied to sell matches on a very low cost."

(Exhibit 203)

4. *Methods of Dealing with Non-observance of Resale Prices*

Persuasion by representatives of Eddy Match or by organized groups of jobbers appears to have been a principal means employed to secure adherence to resale prices, in addition to the procedure for declaring observance of prices and applying for the special discount. Other methods were considered in the Maritime Provinces and Western Canada when complaints were made. On March 29, 1935, E. P. Miller wrote to Pyke Bros. Limited in regard to a complaint that Eddy matches were being offered at \$9.50 per case instead of the resale price of \$9.75 :

"We have your letter of March 27th advising that the Scotia Flour & Feed Company have issued a circular quoting BUFFALO matches at \$9.50 per case.

If you are positive that this circular has been issued with a cut price on Buffalo matches, we have no objection to refusing this concern our jobbing price on matches. It is probably true, as you say, that they are using the matches as a leader to get flour and feed business, and are evidently willing to forfeit their 4% rebate for this purpose. It is, however, questionable whether or not having put them on our list we should refuse to sell them our matches; therefore, we would recommend that you inform them that our price on Buffalo matches is \$9.75 per case, and if they wish to purchase matches at this price (which they undoubtedly will not wish to do), we should supply them, but the point is that we should not refuse to sell them our matches but we have a perfect right to name any price that we wish."

(Exhibit 217)

Similar instructions were sent to C. B. Nickerson on January 30, 1937, in regard to a complaint that a firm in Western Canada was not observing resale prices :

"I have your letter of January 27th with reference to Mr. Bowser of Codville Company complaining that the Northern Confectioners were breaking the resale price on Eddy's matches.

From your investigation of this concern, they certainly are not entitled to be on our jobbing list, but I presume the fact that they at one time operated a wholesale establishment has kept them there up to this time.

I would suggest that you advise Tees & Persse not to refuse to sell them matches when they call at the warehouse, but to immediately advance their price and charge them at the resale price, which will of course stop them from buying matches direct, but at the same time we will not be in the position of having refused to supply them and it will not be quite as drastic as to simply take them off our list; therefore, I think it would be better on their next call for goods to instruct the warehouse to charge them at the regular resale price." (Exhibit 217)

A warning that failure to observe resale prices might lead to the loss of the price maintenance rebate was given in a letter of June 6, 1935, from C. B. Nickerson to a branch manager of Macdonald's Consolidated Limited at Yorkton, Sask. :

"From the correspondence I have received and the complaint registered by one of the Winnipeg jobbers, it would appear that your Swan River branch has technically broken our minimum resale inasmuch as they sold on April 23rd Redbird matches in Norqua, [sic] Sask. on the Manitoba list, when they should have sold on the Saskatchewan list.

Last week it was necessary for us to penalize one of our jobbing accounts the 4% for just such an act and I might say that he lost the 4% on all his purchases from April 1st to June 30th not only covering his Manitoba purchases but throughout the three Prairie Provinces, and according to the reading of our agreement it would mean that Macdonalds Consolidated, through the actions of your Swan River Branch would lose the special 4% on all Macdonald's purchases throughout the organization.

I discussed the matter with your Mr. John Crawford this morning and the fact that Swan River has been buying their matches from you and not direct from the Eddy Match Company might indicate that this branch has not received all the circulars pertaining to our agreement and in view of this I am putting the matter entirely before our sales manager, Mr. Miller, in Montreal, recommending that no action be taken in this instance..." (Exhibit 217)

Conditions governing the payment of the 4 per cent discount were outlined as follows by C. B. Nickerson in a letter of September 4, 1937, to a jobber in Vernon, B.C. :

"I attach copy of Eddy Match Company's declaration form, which, if you can sign at the end of each quarter, you receive 4% on your purchases. Of course, if any jobber cuts prices and cannot sign the declaration form, we do not pay this extra 4%." (Exhibit 222)

When asked whether the withholding of the 4 per cent discount under the resale price plan could not be considered as a penalty, E. P. Miller said in evidence :

A. "...there never was any penalty assessed in any price policy we had.

Q. Don't you consider it a penalty if you do not get an advantage someone else gets ?

A. Everyone got the same advantage. We never took an advantage away from anybody." (Evidence, p. 343)

At the same time it is evident that the purpose of the procedure which Eddy Match established before making payment of the 4 per cent discount was to impress the wholesaler with the desirability of maintaining the prices named by Eddy Match. This purpose is indicated in a letter which C. B. Nickerson wrote to E. P. Miller on December 10, 1937, reporting a discussion with jobbers in Vancouver in regard to a resale price arrangement which a broker for Federal Match had endeavoured to establish. It had first been proposed that the resale price for Federal matches should be set 50 cents lower than the resale price for Eddy matches but, when Nickerson

took strong objection to the proposed arrangement, a resale price the same as that of Eddy Match was suggested. Mr. Nickerson reported to E. P. Miller :

"I asked them what guarantee Shanahan had given that the price resale would be maintained. All I got was that he had given his promise. I pointed out that we had had to inaugurate a 4% policy in order to make the jobber be good." (Exhibit 208)

In replying to C. B. Nickerson on December 13, E. P. Miller wrote :

"I enclose confirmation of my Day Letter of to-day which I sent you after receiving your Night Letter stating that the Tobacco Association had advised you that Federal Match Company had put on a resale price the same as Eddy in British Columbia.

I presume this was done after you went back at them after talking to me in regard to the plan of Shanahan and the Tobacco Association to put on a resale price at approximately 50¢ below our resale price which the Tobacco Association attempted to have you agree to and which we refused to do stating that we would not hold the resale and allow Shanahan to have a lower resale price than ours.

On the face of Shanahan issuing a resale price the same as Eddy's, this looks quite satisfactory, except that we have no faith in Shanahan being able to control the resale price; furthermore, this, in our opinion, is Shanahan's proposition and not the Federal Match Company's; moreover, if their price was maintained at the same price as ours, it is extremely doubtful, in my opinion if they would be able to sell the low grade of Federal matches on the retail trade at equal prices; however, we are certainly going to maintain the position that we will not agree to hold our resale price policy against competition from a competitor on a lower price basis. No one could explain satisfactorily to me why we should sit back and allow a competitor to sell at lower prices simply so that they could get some match business, and we must take the position that if the Association wants us to maintain a resale price policy we will only maintain this policy against other competition that will do the same." (Exhibit 208)

It was the practice of Eddy Match to set an amount in reserve at the end of every month to cover the 4 per cent discount on any matches sold in the Maritime Provinces or in Western Canada to which such discount might apply. It is a matter of record that for some years not all the monies set aside were paid out to customers. Such excess reserves, which were only excess because they had not been claimed or the claim had not been allowed, were after some time transferred to the profit and loss account. The last transfer reported was made on December 31, 1943 and covered amounts set up but not paid out for the year ended December 31, 1941. Since December 31, 1943, no part of the reserve to cover the price maintenance discount has been credited to profit and loss, and each customer in the Maritime Provinces and in Western Canada has been given all the 4 per cent discount applicable on his purchases. During this war period and for some time afterwards Eddy Match and associated companies were the only manufacturers of wooden matches in Canada.

On occasion Eddy Match would write to some of its customers informing them that the 4 per cent discount had not been claimed and reminding them of the conditions on which payment would be made. The following letter of October 30, 1935, addressed by the company to G. E. Barbour, Limited of Fredericton, N.B., is an example of this practice :

"We find that we have not received from you a Form of Declaration covering the quarterly period of July 1st to September 30th, 1935, advising of your adherence to the \$9.75 resale minimum price on our #3 size brands of matches, and entitling you to a 4% rebate on your purchases thereof during this period.

If we have received your co-operation in this regard and you have not sold our #3 size brands below a minimum resale price of \$9.75 per case during the three months ending September 30th, as mentioned in our circular letter of February 14th, 1935, your assurance by means of the enclosed Form of Declaration will secure for you our prompt Credit Note to cover this 4% rebate." (Exhibit 222)

Continuation of the practice of insisting on the declaration that resale prices had been observed is indicated in the following exchange of letters between a wholesale grocer in Halifax, N.S. and Eddy Match. The customer, Howards Limited, wrote

to Eddy Match on September 30, 1944 :

"This letter will serve to assure you we have not at any time broken the agreement or made any sales of Matches 48/3s at less than the minimum agreed price of \$11.80 per case. Neither have we remembered to send you this written statement at any time during 1944 or possibly during latter part of 1943, therefore, would you kindly send us your check for 4% quarterly discount.

At the same time would you kindly explain why it is you cannot voluntarily remind us or send us this discount at the end of each quarter. We feel that this discount belongs to us and we resent the fact that when we forget to write you, you withhold the amount quarter after quarter without reminding us. It almost seems you do not want to give us this discount, but of course we know this is not correct."

(Exhibit 222)

Replying on October 5, 1944, Eddy Match wrote :

"We acknowledge your letter of September 30th, and are pleased to enclose our credit note for \$171.30 covering quarterly discount of 4% on your purchases of #3 size brands of Matches from January 1st to June 30th, 1944. As soon as our records are closed for the Quarter ending September 30th we will send you a further credit note for 4% on your purchases for this last Quarter.

We wish to assure you that it certainly is not our intention to withhold this 4%, but we must insist upon you advising us at the end of each Quarter, just as all our other customers are obliged to do before credit is sent to any one of them. It would be very difficult for us to attempt to check each individual customer and send a reminder in case these quarterly statements were not sent in voluntarily by the customers who are entitled to this discount on the basis of the voluntary agreement on which we are working. We trust you will appreciate this and not consider it too much of a hardship for us to request you to send to us at the end of each Quarter the required statement, and we assure you that upon receipt of same, credit will be promptly mailed to you."

(Exhibit 222)

5. Maintenance of Retail Prices of Matches

Eddy Match has maintained a close check on retail prices as well as the prices at which wholesalers sold matches to retailers. It has apparently felt that active competition at the retail level might lead to pressure for lower prices on wholesaler and manufacturer and that any significant reduction in retail prices might result in retailers and wholesalers purchasing other brands of matches which could be secured at prices lower than those charged by Eddy Match. Through its representatives Eddy Match endeavoured to see that minimum retail prices were observed not only on sales of its own brands of matches but also on sales of matches made by other manufacturers.

A special problem arose under the resale price maintenance plans in connection with retailers, such as chain and department stores, who were direct accounts of Eddy Match. Such distributors did not normally resell matches in case lots, for which type of sale resale prices were specifically named, but they would expect to receive the 4 per cent discount which was available to wholesalers who observed the prices named by Eddy Match. E. P. Miller outlined the method to deal with the situation in a letter of April 3, 1935 to Tees & Persse. He suggested that, if chain stores observed the minimum resale prices in selling to consumers, they were entitled to the special allowance :

"With regard to the price at which chain stores will sell matches to the consumer; we have suggested a minimum selling price of 23¢ per package in the Prairie Provinces and 24¢ per package in British Columbia. Undoubtedly, some plan will have to be worked out so that it will be necessary for chain stores to commit themselves to a maintenance of these minimum prices in order to entitle them to the 4% discount which we allow to jobbers for the maintenance of the minimum resale prices as published in our price lists.

As you know, we have had a minimum resale price list in effect in Eastern Canada for some little time, and while this price policy has broken down in the Province of Quebec, it is still in force in the Province of Ontario, and we have been successful in Ontario in getting the co-operation of the chain stores to a minimum selling price of 22¢ per package, and this price has been in effect for almost a year and is working very satisfactorily."

(Exhibit 169)

Some difficulty was experienced in getting one department store in Vancouver to agree to observe the minimum retail prices which had been named. H. Reddin, Tees & Persse, Vancouver, wrote to C. B. Nickerson at Saskatoon on April 26, 1935 :

"I have taken up the matter of resale prices with Ells, Allison, Safeway, Hudson's Bay Retail, Overwaitea Co. and Spencers. All agreed to maintain the deadline of 24¢ except Spencer's and they advised they would let me have an answer in a few days. This, of course, is not satisfactory and I talked the matter over with Mr. McIntosh today and he advised that he will have Mr. Frith see what he can do on the matter. I will then call on the other large retail outlets, as per attached list." (Exhibit 203)

E. P. Miller was informed of the situation and made the following comment in a letter of May 20, 1935, to C. B. Nickerson :

"With reference to obtaining co-operation on the minimum selling price from the chains; I notice the difficulty you are having with David Spencer Limited, who have absolutely refused to agree on the 24¢ dead line price. Mr. McIntosh seems to be quite willing to co-operate with us and put some pressure on these people to try and get them to agree on this minimum selling price. My suggestion would be that instead of refusing to sell them matches, he put his price up because my impression is that he is selling them at a very low price. I see no reason why he could not charge them the regular resale price, and you might talk this over with him and see if this can be arranged." (Exhibit 203)

In the same letter he indicated that it was expected the minimum retail price of Commonwealth matches would be the same as that of Eddy matches. His letter stated :

"With reference to Piggly-Wiggly, whom we are not selling but to whom the Commonwealth is selling exclusively; I do not quite understand what Mr. Weatherall means when he says he has not received any word from the Commonwealth Match Company about the dead line price of 24¢. I will see if anything can be done about this and will try diplomatically to suggest to the Commonwealth Match Company that in view of the fact that they have published a resale price and that they are selling this customer exclusively, they should see that the minimum resale price is maintained."

By July 2, 1935, E. P. Miller was able to write to C. B. Nickerson congratulating him on having received assurance that David Spencers would not cut prices unless someone else did. He wrote :

"If you are able to keep Spencers in line, I understand that you will be able to keep the rest of the departmental stores to the deadline price, and this will be a happy ending to what looked like an almost impossible situation." (Exhibit 203)

Later in 1935 there was an incident involving price competition among department stores in Edmonton in the sale of matches. The Edmonton branch of Tees & Persse made the following report to C. B. Nickerson on October 12, 1935 :

"Hudson's Bay Company and C. Woodward Limited over this last week-end advertised Magic Tip 3's at 22¢ per packet.

As you are aware, the agreed retail resale price was to be not lower than 24¢ per packet. On checking up with Woodward's we were told by Mr. Laing that they were told (by Ramsay apparently) to clean up their stock of Magic Tips, as this line was going to be discontinued.

Mr. Jeffels of the Hudson's Bay checked up with Ramsay Brokerage Company, who informed him that there was no resale price on Magic Tips.

Mr. Teal of Eatons, in view of the fact that these two competitors of theirs were selling Magic Tips at 22¢, stated he was going to advertise Owl at 20¢ but we persuaded him not to do this until we had had a chance to straighten matters out.

Mr. Jeffels has agreed to keep the price of 24¢ on Magic Tips but Woodward's will not agree to this, as they state Ramsay Brokerage sold them Magic Tips at a clean up price of \$1.00 below list and if Commonwealth Match Company had not the authority to break resale price then they sold the Matches to Woodward's under false pretences and therefore we should get after Commonwealth Match Company. In the meantime, Mr. Ramsay has written to Mr. Ross Richardson regarding the resale price of Magic Tips and is awaiting his reply." (Exhibit 203)

C. B. Nickerson sent the following telegram in reply on October 14 :

"UNDERSTANDING ALL BRANDS TWENTY FOUR CENTS REGARDLESS COST MISTER LANGS HEAD OFFICE HERE MAINTAINING LIST ON MAGICS AS WELL EDDYS IF MR. LANG NOT WILLING PLEASE ADVISE AND I WILL TAKE UP WITH HIS FIRM WHO ARE PLEASED WITH PRESENT ARRANGEMENTS OTHERWISE OTHER HANDLERS WILL BE ALLOWED TO SELL EDDYS AT OPEN PRICES. WIRE REPLY." (Exhibit 203)

On October 17, Nickerson wrote to Tees & Persse, Edmonton :

"I was indeed pleased to receive your wire assuring that Woodward's will work along with the rest of the retailers on the 24¢ deadline. I am now advising Montreal that this situation is again in good condition." (Exhibit 203)

Maintenance of resale prices involved continued activity on the part of representatives of Eddy Match. C. B. Nickerson wrote to E. P. Miller on February 19, 1937, from Vancouver :

"It seems that we are always to have grief somewhere with reference to the maintaining of the resale list on matches. Last night in the local papers, Woodward's advertised 300s at 7¢ and on investigation find that they were Canadas. This is the first stock that Woodward's have had of Canadas for over a year and I got in touch with Mr. Ells this morning, explaining that there was a deadline of 8¢ on all matches of Canadian brand. He came back with the query as to whether they would not be allowed to sell Canada matches at whatever price they liked as he understood they were an outlaw Company. I assured him that such was not the case.

In the meantime it has been necessary for me to again approach Mr. Rupert of Safeway not to take any step to meet this competition as Mr. Ells of Woodward's has agreed to discontinue this price tonight. Mr. Rupert stated that he was getting tired of letting the other fellow slip one over and intimated that if it continues it will be necessary that they protect their volume.

I visited Malkin and went into the matter with them and strange to say, they did not seem to know that there was a consumers' price on matches, which, of course, is nothing but passing the buck. What I am worried about right now is that this man at Spencers may investigate this ad. and seeing that they are Canadas will immediately cut the price. Then, of course, the lid's off." (Exhibit 203)

On April 16, 1937, he reported to Miller another instance where he was able to secure the withdrawal of a price lower than that named by Eddy Match in Vancouver :

"Attached please find a copy of today's ad. for the Superior Chain Stores and you will note that they have, in large type, Owl Matches, 3 boxes for 22¢. After 'phoning around the city I was able to catch the manager at one of his stores and he agreed to withdraw this and it has been necessary for me to get in touch with all the large distributors in the city, advising them of same, so that they would not retaliate and thereby throw the price right open. Of course, the old situation still remains and that is, what will Spencer do, but I am hoping that he will leave well enough alone." (Exhibit 203)

A similar incident was reported to C. B. Nickerson on October 30, 1937, by the Calgary Branch of Tees & Persse, as follows :

"For your information, we noticed in last night's Herald, the Hudson's Bay Co., Calgary, advertising matches, large boxes, at 22¢ per carton, and the writer went to see Mr. Gahn the first thing this morning.

When I met Mr. Gahn I said 'Was that an error in your advertising matches at 22¢ per carton in last night's Herald?' and he said 'Why no, that is the new match' and took me over to the counter where he had specials on display and the matches were Federal Sunrise. He started to tell me about these matches and then suddenly said 'By the way what was the agreement we signed in regard to the resale prices on Eddy's matches, were we to maintain these prices on opposition matches as well?' The writer then told him the whole story of the resale prices, advising him that these prices were put into effect at the instance of the wholesale grocers, and in order to protect the retailers and give them a profit, zone prices were put into effect and that the zone price for Alberta was 24¢. Mr. Gahn said 'I am very sorry but I had forgotten all about this and I can assure you that the price on Sunrise matches after today will not be less than 24¢.'" (Exhibit 203)

Again, in 1939, C. B. Nickerson took action in Edmonton to prevent matches being sold at retail not less than 24 cents. He reported to E. P. Miller from Calgary on February 2, 1939 :

"Further to the Edmonton situation, late yesterday, the Office got me by telephone at one of the Jobbers, with the statement that Mr. Teal of Eatons was going to break loose and advertise Matches cheaper than the 24¢ resale. Therefore, it was necessary for me to go over and go through about the same trouble with Teal that I had with Lang of Woodward's. I really got to the point where I told Teal that if he was still of the same opinion that as far as the Eddy Match Company was concerned the resale was washed up and I could assure him that in the morning the Safeway Stores in the outlying districts would be offering Eddy Matches as cheap if not cheaper than Eatons could sell them. They would not only lose the match business they were now enjoying at a profit, but they would also lose money on what they missed selling. I am thankful we were able to convince this gentleman that it would be well to recognise that orderly distribution was the best thing." (Exhibit 203)

The following month C. B. Nickerson received a report from the Tees & Persse branch in Saskatoon regarding efforts made to prevent the sale of Eddy's Swan matches at retail at less than the established minimum price. He replied on March 7, 1939 :

"I was surprised to note by your remarks that the Safeway are selling them. I might say, Ralph, that this has not been the case at other points.

Certainly, with Safeway advertising Swan Matches at 3 for 19¢ they are bound to sell a lot and I am pleased to note that you were able to straighten Mr. Conn out. In this connection, I might say that I had a run in with Mr. Conn in Regina some months ago when he threatened to sell Eddy's Matches on cut prices. I was able to convince Mr. Conn that the head of his organization would not feel at all pleased to have prices cut. After all, if you are talking with Mr. Conn you might mention that the arrangements made with The Eddy Match Company that they get their loyalty discounts by maintaining Eddy's policy, and Eddy's policy is that these matches shall be sold not lower than 3 for 24¢. I do hope that there will be no more embarrassment caused from this quarter and I am pleased to note that you were able to straighten this little store on the outside who advertised Silent Matches at 3 for 21¢. This is rather a lame excuse for Mr. Conn to use as an example as to why he should be able to cut matches." (Exhibit 203)

Resale price maintenance was applied by Eddy Match as part of its policy to maintain substantial control of the manufacture of matches in Canada and to prevent competition from other matches affecting its position in the market. Eddy Match was prepared to co-operate with groups of distributors in maintaining the prices of Eddy brands of matches when such maintenance of prices furthered the sale of its products and created difficulties for the sale of products of other manufacturers. Competition among wholesalers or retailers in the sale of Eddy products or those of other manufacturers which might have some effect in reducing the prices of matches has been guarded against by Eddy Match, not only through resale price maintenance but in its general policy already described. Competition at the retail level has been a matter of particular concern to Eddy Match over the years. To meet the limited competition arising on occasion from the sale of matches of other manufacturers it has used its fighting brands which were supplied at prices lower than Eddy's listed brands. It has always attempted to control and direct the distribution of fighting brands for the particular purpose for which they were introduced into any territory. For example, if competition was considered to be present in sales to wholesalers, the distribution of fighting brands would be directed to that level of trade and the wholesaler given a larger margin so as to offset the lower price of the competing matches. On the other hand, if the competing manufacturer was selling direct to the retailer, the wholesaler would be encouraged to take a smaller margin on Eddy's fighting brand so that the retailer would have a larger margin and thus be less inclined to handle other matches. Only on rare occasions, as in the case when Federal Match introduced its small box of matches to retail at one cent per box, did Eddy Match try to persuade retailers to lower prices to consumers. Its efforts in Western Canada to secure the acceptance by retailers of a common minimum price on all matches have already been referred to.

Summing up the situation in Vancouver after Federal Match had been acquired by Eddy Match, C. B. Nickerson wrote to E. P. Miller on May 18, 1940 :

"We are fortunate in the fact that outside of the large stores, all retailers who bought cheap priced matches did so to resell at the same price as Eddy Standard Brands and that at no time have the large retailers broken Eddy's 8¢ minimum resale, on Eddy's Brands."
(Exhibit 203)

While it is evident that certain trade groups have been anxious that Eddy Match should establish resale prices and see that they are observed so that the members of such groups should be protected from active price competition, it is equally evident that Eddy Match has employed the policy of resale price maintenance for its own purposes in limiting the effects of competitive selling in periods when independent companies were operating. The objective of Eddy Match in this direction as in others has been to maintain, as far as possible, non-competitive conditions in the Canadian match industry and to prevent the development of any competition which would disturb the pricing policy which it had established on the basis of its substantial control of the industry.

IX. DEVELOPMENT OF MANUFACTURE OF BOOK MATCHES

While wooden matches still constitute the principal type of match used in Canada, book matches have come into greater use in recent years, particularly during the war period. Book matches tend to fall into three classes: those manufactured and sold as stock pattern book matches, sometimes referred to as commodity matches, which carry no advertising; standard advertising book matches, which are offered to business firms in stock patterns to which the merchandiser's name may be added; and advertising design book matches which are sold in fairly large quantities to a merchandiser who selects his own cover design. The latter two classes are, in a sense, joint products of matches and advertising. The return to the match manufacturer is thus influenced by the sale of the product as an advertising medium. Where book matches bearing advertising are sold through the normal trade channels, the price to the trade may be lowered by reason of the fact that the match manufacturer is obtaining part of his cost from the advertiser. When the match booklets are treated solely as advertising matter the advertiser would bear the whole cost.

For obvious reasons Eddy Match has not sought to push the sale of book matches at the expense of wooden matches, of which it holds a monopoly. C. B. Nickerson, Western representative, of Eddy Match, made this clear in a letter of September 11, 1945, to H. P. Powell, Tees & Persse, Winnipeg :

"... I have carefully noted your remarks to the effect that several prices have been quoted on stock book matches and some of them as low as \$16.00 per case. It is true that we have not a definite resale on the book matches and the reason for this is that we have never considered book matches in the same category as the wooden splints. Book matches, to our way of thinking are advertising mediums and in normal times are given away with the advertiser paying the cost. You will remember that before the war this was universal and we have no reason to believe but what the same thing will happen after conditions have settled down, and were we to establish a selling price of say \$17.00 as you suggested per case this would make a profit so attractive to our jobbers that instead of holding back on selling they would go out and attempt to increase their business.

We have found in days gone by that when a line gets so low that it does not show enough profit the wholesaler loses interest in same and then turns to a line that does show a profit. We have always been against the increase sale of book matches as we would rather sell our regular brands which, as you know, places us in a stronger marketing position. Furthermore, we have for years attempted to (but failed) impress upon the jobbers the very fact that they were, by furthering the sale of book matches, placing these in a position where, when normal times come back, they are going to lose their match business by popularizing such lines as book matches, for certainly if the consumer can get his matches for nothing with advertising on he is not going to go to the grocery store and buy box matches. Unfortunately for us though, the jobber has taken the opposite point of view and the book match business has increased tremendously." (Exhibit 264)

Eddy Match has made book matches since it started in business in 1928, but until the war its sales of book matches, including excise taxes, amounted to less than \$100,000 per year. Policy in earlier years regarding the manufacture of book matches was discussed in a letter of December 2, 1929, from T. J. Reynolds, vice-president of Diamond, to H. A. Rudd :

"I do not know whether we should push the sale of Book Matches in Canada or not. The Columbia Match Company are manufacturing and selling Book Matches in the United States and if they should decide to go into Canada on Book Matches we would be obliged to put more effort behind book matches than we have so far. The Lion Match Company are now selling some book matches in Canada, but this effort on the part of the Lion may be a flash in the pan.

The question as to whether or not we should push the sale of book matches depends upon the factory situation and the factory cost to a large extent. I do not know what the factory situation is. All I know is you had an old machine taken over with the World Match Company and that it made very poor books. I think you have bought some machines since and, therefore, I suggest that you advise me what your installed capacity is at the present time, and also whether you have any machines that have not been erected but that you intend to erect for book matches and give me the number of book matches

you will be in a position to manufacture. If we can make as much or more money on box matches there would be no good reason for our going into the book match business unless we are forced to by our competition, and this is a question I want to discuss with Mr. Miller. On the other hand, the book match business in the United States is growing and it is a very popular match, and we may make a mistake if we do not recognize the opportunity and get established on book matches before any competitor breaks into the market." (Exhibit 280)

Columbia Match Company of Canada Limited went bankrupt in 1932 and Eddy Match continued as the only producer of book matches in Canada until 1938. In that year two independent companies, The Book Match Manufacturers Limited, Toronto, Ontario, and Strike-Rite Matches Limited, London, Ontario, entered the field. These companies were able to find an expanding market for their products, but it was not until the strong demand for matches during the war that the volume of book matches rose above 10 per cent of the total quantity of matches sold in Canada.

E. P. Miller wrote to C. B. Nickerson on June 5, 1944, in regard to an inquiry for book matches by the representatives of one large distributor :

"They both had the idea that book matches were being sold in tremendous volume, but of course this is not true, and I explained to them that the book match business is a very small percentage of the total match business and was not a factor as far as match consumption was concerned, these matches being sold mostly as an advertising proposition, and that if the war continued it might possibly get to the point where the Government would restrict the advertising on book matches, and under present conditions I felt that the most important thing for ourselves and our distributors was to see that the people were supplied with matches in sufficient quantity for everyone's needs—which is the case today—and that sales of advertising matches should not be pushed during this period." (Exhibit 280)

During the years 1942 to 1945 Eddy Match exported a considerable proportion of its production of book matches. Reporting to W. A. Fairburn on January 16, 1947, E. P. Miller wrote "we have been in the unfortunate position that conditions made possible easy sales of book matches by competition, and we had to do the best we could with the production we had". (Exhibit 125). He enclosed a statement to show the relative positions occupied by Eddy Match and other book match manufacturers in the domestic sales of book matches and the relation of the sales of book matches to the total volume of book and wooden matches sold in Canada. The following table shows the relative importance of book match sales and the shares of the book match business in Canada held by Eddy Match and the two independent manufacturers in the period 1938 to 1946.

TABLE 4. RELATIVE IMPORTANCE OF DOMESTIC SALES OF BOOK MATCHES, 1938-1946

(Based on number of matches sold)

| Years Ending March 31 | Book Matches as Percentage of Total Domestic Sales | Share of Total Domestic Book Match Sales | |
|-----------------------------|---|--|------------|
| | | Independent Companies (1) | Eddy Match |
| | % | % | % |
| 1938 | 1.2 | 2.6 | 97.4 |
| 1939 | 2.4 | 52.4 | 47.6 |
| 1940 | 3.1 | 60.7 | 39.3 |
| 1941 | 6.0 | 63.2 | 36.8 |
| 1942 | 9.9 | 70.3 | 29.7 |
| 1943 | 10.4 | 60.0 | 40.0 |
| 1944 | 15.9 | 58.6 | 41.4 |
| 1945 | 16.5 | 60.0 | 40.0 |
| 1946 | 17.4 | 60.9 | 39.1 |

(1) The Book Match Manufacturers Limited, Toronto, Ont. and Strike-Rite Matches Limited, London, Ont. The latter company was organized by Lawson & Jones, Limited, London, Ont. which also appears to be connected with Premier Matches Limited, Montreal, P.Q. Premier Matches Limited commenced business during 1946.

(Based on Exhibits 125 and 262)

The following table gives summary statistics issued by the Dominion Bureau of Statistics on the production of book and wooden matches :

TABLES 5. PRODUCTION OF BOOK AND WOODEN MATCHES, CANADA, 1946-1948

| Year | Book Matches | | Wooden Matches | |
|-----------|--------------------------|-----------|-----------------|-------------|
| | No. of Books(1) (000) | Value(2) | No. of Cases(3) | Value(2) |
| 1946..... | 326,735 | \$862,460 | 716,521 | \$2,578,185 |
| 1947..... | 317,953 | 843,255 | 787,581 | 3,184,591 |
| 1948..... | 272,658 | 821,015 | 673,597 | 3,339,380 |

(1) 20 or 30 matches are usually put in a book.

(2) Not including sales or excise taxes.

(3) Case unit of measurement varies with different types of matches generally as follows :

| | | |
|-------------|---|--------------------------------|
| Household | — | 144 boxes of 300 matches |
| Pocket | — | 720 boxes of 50 matches |
| Vest Pocket | — | 1440 boxes of about 25 matches |

It will be seen from these figures that, while the production of wooden matches increased in 1947, there was some falling off in the production of book matches in that year compared with 1946. In 1948 reductions are shown in the quantities of both types of matches manufactured. The production of Western Match, part of which was exported, would be included in the statistics for 1947 for a full year whereas it had produced for only a few months in 1946. No substantial change occurred in the proportion of book matches to the total match production in post-war years for which data are available. As the end of the war approached in 1945, Eddy Match made plans to increase the output of book matches for distribution in Canada. In his evidence in 1948 (pp. 589-90), E. P. Miller said that the company had added new book match machinery after the end of the war but that it had not been put into operation at the time of the hearings. He estimated at that time that Eddy Match was supplying between 40 and 45 per cent of the book match market in Canada.

The few independent book match manufacturers have succeeded in building up their businesses during a period when the demand for matches of all kinds increased very substantially and when Eddy Match had difficulty in enlarging its capacity for the manufacture of book matches. Although there is evidence that independent book match manufacturers have been active in seeking to get business in competition with Eddy Match, there is also some indication that prices established by Eddy Match have been accepted on a basis of price leadership by one or more of the independent companies. While the documentary evidence already quoted makes clear that Eddy Match has endeavoured to push the sale of wooden matches, in which it had a monopoly, in preference to the sale of book matches, it is also evident that Eddy Match has been determined to maintain or improve its position in the book match field. The fact that Eddy Match is the only manufacturer able to supply both wooden and book matches gives it a position of advantage in making sales to the distributive trades.

X. PAYMENTS TO DIAMOND AND OTHER COMPANIES FOR SERVICES AND SUPPLIES

Since its incorporation the Eddy Match Company has made substantial payments for services and supplies to individuals and companies associated with the Diamond Match Company of the United States and for patent rights. The more important of these arrangements will be discussed in this chapter.

1. Uniform Chemical Products Incorporated

Throughout the period of its existence Eddy Match has purchased a substantial quantity of essential materials from Uniform Chemical Products Incorporated, which is a wholly-owned subsidiary of Diamond Match operating in the United States. To a small extent similar purchases have also been made by Commonwealth Match, Canada Match and Federal Match.

Some of these materials have been purchased by Uniform from Canadian suppliers and resold to the four Canadian match companies at a markup over the purchase price. Information with respect to such purchases by Eddy Match and associated companies has been obtained from available records for the years 1939, 1940, 1944 and 1946. In such purchases the practice has been for shipment to be made direct from the Canadian supplier to the factory of the purchasing match company with the billing being done from New York by Uniform Chemical. The percentage markup and gross dollar profits of Uniform in such transactions have been substantial. In the four years Canadian manufacturers of certain important materials charged Uniform Chemical the amounts indicated in the third column of the following table. The fourth column shows the amounts which Uniform Chemical charged Eddy Match and associated companies for the same materials :

TABLE 6. GROSS PROFIT ON SALES OF CANADIAN SUPPLIES AND MATERIALS BY
UNIFORM CHEMICAL PRODUCTS INC. TO EDDY MATCH AND ASSOCIATED
COMPANIES, 1939, 1940, 1944 AND 1946

| Year | Supplies Purchased | Cost to Uniform Chemical | Cost to Eddy and Associated Companies | Gross Profit to Uniform Chemical | Markup % |
|---------------------------|-------------------------|--------------------------|---------------------------------------|----------------------------------|----------|
| 1939 | Containers..... | \$ 43,809.84 | \$ 61,381.71 | \$ 17,571.87 | 40.1 |
| | Ground Base Glue..... | 49,033.95 | 58,289.34 | 9,255.39 | 18.9 |
| | Total for year..... | 92,843.79 | 119,671.05 | 26,827.26 | 28.9 |
| 1940 | Containers..... | 41,885.68 | 57,142.09 | 15,256.41 | 36.4 |
| | Ground Base Glue..... | 56,751.27 | 70,809.51 | 14,058.24 | 24.8 |
| | Chlorate of Potash..... | 77,009.92 | 93,307.90 | 16,297.98 | 21.2 |
| | Total for year..... | 175,646.87 | 221,259.50 | 45,612.63 | 25.9 |
| 1944 | Containers..... | 46,669.94 | 62,638.32 | 15,968.38 | 34.2 |
| | Ground Base Glue..... | 59,031.42 | 68,941.31 | 9,909.89 | 16.8 |
| | Chlorate of Potash..... | 84,239.20 | 103,217.50 | 18,958.30 | 22.5 |
| | Total for year..... | 189,960.56 | 234,797.13 | 44,836.57 | 23.6 |
| 1946 | Containers..... | 77,719.33 | 103,084.48 | 25,365.15 | 32.6 |
| | Ground Base Glue..... | 86,377.14 | 100,099.06 | 13,721.92 | 15.9 |
| | Chlorate of Potash..... | 104,867.84 | 128,463.04 | 23,595.20 | 22.5 |
| | Total for year..... | 268,964.31 | 331,646.58 | 62,682.27 | 23.3 |
| Total for four years..... | | \$727,415.53 | \$907,374.26 | \$179,958.73 | 24.8 |

With respect to shipping containers, approximately 96 per cent of the amount billed by Uniform covered shipments to Eddy Match alone. For supplies of this commodity in the four years Eddy paid Uniform a markup of over \$70,000, of which over \$25,000 was paid in 1946.

The items listed above do not constitute all the purchases from Uniform in the particular years. For example, in 1946 Eddy's total payments to Uniform were \$476,113.97, whereas the payments on the items included in the above table amounted to \$300,488.95. The bulk of the difference was for materials imported from the United States.

It seems reasonably clear that, through its ownership of Uniform Chemical, Diamond Match has made a substantial profit on purchases which the four Canadian match companies could have made direct from the Canadian sources of supply, presumably at the same prices charged Uniform. The dominant position of this group of match companies in the Canadian market has been of material assistance in achieving this result.

In his oral evidence, Mr. Hart explained that to the best of his knowledge there were no signed agreements relating to these purchases from Uniform, but that there was a verbal agreement under which Eddy Match was to purchase its major chemical supplies from Uniform. He went on to say:

"... There is no significance to this Uniform Chemical Company as such. It is simply a channel, such as you or I or anybody else might be, to purchase materials of suitable quality and type. The materials going into matches are highly technical in nature and you cannot just sit down and put them together. You have got to have somebody who knows; and they are the people who know." (Evidence, p. 254)

Mr. Hart's evidence with respect to Eddy Match's purchase of containers from Uniform was as follows:

"Q. Does the Eddy Match Company purchase the bulk of its requirements of corrugated cartons from Uniform Chemical Products Incorporated ?

A. They are purchased through the Uniform Chemical Products.

Q. Do you know what manufacturer produces those cartons ?

A. Yes. Shipping Containers Limited, in Canada, produces them.

Q. Then, what is the reason for purchasing them through the Uniform Chemical Products Incorporated, which is an American corporation ?

A. The reason today — perhaps there is not any — but at the time it started, there was a great deal of discussion amongst the various box makers in Canada and in the United States, particularly on such items as the weight of board and the specifications of the container. There again you cannot just pack matches in any old box. The specifications have to be passed by the Bureau of Explosives in the United States and Canada. Admittedly, it is not technically a chemical matter at the time ; but the case was developed by officials of Uniform as a matter of general practice and we continued the order through them.

By the Deputy Commissioner :

Q. What time do you refer to ?

A. I cannot be very specific ; but I would say that was back around 1930 or 1932.

Q. What was your practice prior to that ?

A. I do not know ; I cannot answer that.

By Mr. Ahern :

Q. Do you know to what extent the practice of purchasing the corrugated cartons through Uniform Chemical increased their cost to Eddy Match Company ?

A. No, sir, I do not know.

Q. There must be an increase in cost ?

A. I cannot tell you.

Q. Is there an increase in cost through that practice ?

A. I do not know."

(Evidence, pp. 254-256)

The table given above indicates that there was a substantial increase in cost. Mr. Hart was asked later:

"Q. Has the Eddy Match Company, to your knowledge, ever placed a sizeable order for corrugated containers other than through Uniform Chemical Products ?

A. No.

Q. Has the possibility of a cheaper source of supply than Uniform Chemical Products for corrugated containers ever been explored ?

A. No; we have been quite satisfied with what we were getting." (Evidence, p. 257)

Another reason for the purchase of containers from Uniform Chemical is indicated by the following extract from a letter of September 30, 1929 from W. O. Augustine, president of Uniform, to H. A. Rudd, vice-president of Eddy Match :

"I have a letter from Mr. Bathgate, which indicates that he is getting prices direct on corrugated cases.

As you know, it is Mr. Fairburn's desire that the Uniform handle this case matter exclusively and... I would be glad to have you diplomatically call the matter off on his doing anything further about obtaining price on fibre or corrugated cases." (Exhibit 95)

It has been the practice of the four match companies, Eddy, Commonwealth, Canada and Federal, through the period of their control by the same interests, to purchase chlorate of potash and sesqui sulphide of phosphorus through Uniform. On being asked which manufacturer produced the principal chemicals used by Eddy Match and the possibility of making direct purchases from the manufacturer, Mr. Hart replied:

"Well, my answer as to who makes them is limited because we, over a long period of years, are simply dependent on Uniform Chemical Products to obtain them. Chlorate, for example; that is made by the Electrical Reduction Company in Buckingham now. I do not know — I am not in a position to say — whether we could properly purchase from them because we would probably have to put in a highly skilled technical or laboratory staff to make sure that we were getting what we need. That is the sole purpose of the Uniform Chemical Products Company." (Evidence, p. 256)

Throughout the life of the Eddy Match until early 1940, chlorate of potash was not made commercially in Canada. This chemical is essential in the manufacture of matches. Upon ignition of the match by friction the chlorate of potash releases oxygen and thus assists in the rapid full lighting of the match. For the period up to 1939 chlorate of potash was available from various European suppliers and from Japan. However, the most reliable source of chlorate of potash of a type suitable for match manufacture was in Germany. At the time Eddy Match started business and for some years afterwards, Uniform obtained the major part of its requirements of chlorate from I. G. Farben or its predecessors and in return the German suppliers undertook not to allow others to whom it sold this chemical to sell it in the United States. As Uniform apparently handled the entire distribution of chlorate of potash from I. G. Farben in both the United States and Canada, when used in the manufacture of matches, independent producers of matches would have to apply to Uniform if they wished to use chlorate of potash from this source.

When Electric Reduction Company of Canada Limited began to manufacture chlorate of potash in Canada in 1940, Uniform purchased the total amount available for match manufacture and allocated it to the various match makers, including the independent manufacturers of book matches. Although shipments were made to Canadian purchasers direct from Electric Reduction's factory at Buckingham, P. Q., the billing was done by Uniform, which added a markup for its services. Western Match, which commenced operations in 1946, is understood to have obtained its supply of chlorate of potash direct from Electric Reduction without any reference to Uniform.

2. *Diamond Match Company*

Substantial payments have also been made by Eddy Match to Diamond Match for machinery and supplies. Other payments have been made for services and ex-

penses which for the most part are indefinite in specification in the records maintained by Eddy Match. Some of the payments were to individuals such as W. A. Fairburn, for salary, expenses and directors' fees as officers and directors of Eddy Match. From time to time Diamond Match would charge Eddy Match for general services in connection with supervision of Canadian operations. In referring to the description given certain of these payments Mr. Hart said in evidence:

"From time to time this has been discussed by and with the tax people, and in view of the volume of business up here the tax people have always considered these charges to be fair and reasonable, particularly from the point of view of manufacturing. For example, the Diamond Match Company carries a staff of chemists, and it operates substantial laboratories and that kind of thing which we do not do up here; and we have always received the benefit of those, and we have received the benefit of all their match-making technique and know-how. So that is the reason why, from time to time, they would word their billing as being 'in respect to the well-being of the match industry in Canada,' which is something that, perhaps, I doubt if it could be broken down very much. It is probably an accumulation of a lot of salaries and charges down there which are probably passed along in part to us, because we received the benefit of the work done." (Evidence, p. 234)

Eddy Match has employed the services of other corporations which appear to be connected with Diamond Match. Advice on matters of freight regulations and assistance in shipping matters have been obtained from National Traffic Bureau, Incorporated of New York. Testing of matches has been provided by Industrial Products, Testing and Standardizing Corporation. Eddy Match has had assistance in labour matters from Management Engineers of Canada Limited which was connected with Industrial Management Engineers Incorporated of New York. At the beginning of 1948, Eddy Match took over this function as a separate department of its own organization.

3. *Alliance Sales Corporation — Patents*

Since its incorporation Eddy Match appears to have made few acquisitions of patent rights. It did, however, enter into a relatively large transaction in 1934 whereby it paid, over a period ending in 1944, a total of \$114,000 to Alliance Sales Corporation of New York, for "unassignable right and licence to manufacture, sell and use throughout the Dominion of Canada, for a period of ten years from August 20th, 1934 . . . matches, match machinery, match packages, match display holders, match boxes and match containers embodying the structures and inventions of whatsoever kind or nature disclosed in or by the models, plans, drawings, trade secrets and specifications acquired by Alliance from E. J. Bell and The Bell Machine Company". (Exhibit 97)

Prior to 1934, the Bell Machine Company of Oshkosh, Wisconsin had been engaged in selling match machinery to match producers in the United States and other countries. It will be recalled that Canada Match had secured its first match machine from this company. In 1934 Alliance purchased certain machinery from Bell and also obtained certain licences under patents owned by Bell and under patents licensed to Bell. Alliance then in turn granted a licence to Eddy in Canada as described above. The apparent effect of these transactions was that match machinery could no longer be secured from Bell by any independent Canadian match manufacturer. When Federal commenced operations in 1936, its machines were made in Canada to its own specifications.

XI. PRICES OF MATCHES AND FINANCIAL RESULTS UNDER MONOPOLY CONTROL

1. *Prices of Matches*

In the preceding sections of this report the policies followed by Eddy Match in meeting particular competitive situations have been described in some detail. In spite of the many individual price changes which Eddy Match has made from time to time and the number of special discounts and allowances which have been given to certain customers, the company has appeared to have followed an over-all policy of pricing which was relatively inflexible. The movements in the prices of matches over a period are difficult to trace because of changes in the size of packages, changes in rates of excise and sales tax and changes in the basis of quotation followed by the manufacturers.

The first price lists issued to the trade by Eddy Match, after its acquisition of several companies in January 1928 appear to represent an increase of about \$1.00 per case on the 400 box of household matches, then the most common type.

According to information furnished in the inquiry competition among the match companies had brought prices to the lowest point in July, 1927, when the jobbers' net cost, including excise and sales taxes, was \$8.00 per case of 400's. Excise and sales taxes at that time amounted to \$4.63 per case so that the manufacturer's net price was \$3.37 per case.

Events were then taking place which were to result in the merger of match companies before the end of 1927 and the disappearance of price competition. Significant comment on the situation is contained in a letter dated August 5, 1927 from A. G. Woodruff, vice-president and general manager of Canadian Match Company, to E. P. Miller, then its sales manager. Mr. Woodruff referred to the possibility of someone, presumably R. B. Bennett, going to Europe and then commented:

"Should he not go during September, I shall be very pleased to hear from you your ideas as to whether or not we should make a further cut in the price of matches at the expiration of our present agreement, or whether we should continue to allow matters to go on as at present, unless there is some move made by our friend.

Even though we are not permitted the immediate taking over of the management of the World [World Match Corporation], it is certainly a source of satisfaction to know that things have turned out as they have..."

(Exhibit 257)

The "Draft Agreement" between Ivar Kreuger and R. B. Bennett providing for the formation of Eddy Match was made early in October, 1927. Shortly thereafter prices of matches were advanced. The jobbers' net cost per case of 400's then became \$9.06; excise and sales taxes amounted to \$4.67, so that the manufacturer's net price was \$4.39, compared with \$3.37 in July. The further advance of \$1.00 when Eddy Match began business brought the jobbers' net cost to \$10.11 and, deducting excise and sales taxes of \$4.72, the manufacturer's net price to \$5.39.

The record of price per case of the household box of matches since Eddy's first price lists of January 1928 is as follows:

TABLE 7. PRICE PER CASE OF EDDY HOUSEHOLD MATCHES —
ONTARIO AND QUEBEC, 1928-1948

| Date | Boxes of 400 matches | | | Boxes of 300 matches | | |
|---------------|----------------------|------------------------|--------------------------|----------------------|------------------------|--------------------------|
| | Jobbers' Net Cost | Excise and Sales Taxes | Manufacturer's Net Price | Jobbers' Net Cost | Excise and Sales Taxes | Manufacturer's Net Price |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Jan., 1928 | 10.11 | 4.72 | 5.39 | | | |
| Feb., 1928 | 10.11 | 4.62 | 5.49 | | | |
| March, 1929 | 10.11 | 4.52 | 5.59 | | | |
| May, 1930 | 10.01 | 4.42 | 5.59 | | | |
| June, 1931 | 10.32 | 4.73 | 5.59 | | | |
| April, 1932 | 10.54 | 4.94 | 5.60 | | | |
| April, 1934 | | | | 8.68 | 3.73 | 4.95 |
| May, 1936 | | | | 8.87 | 3.92 | 4.95 |
| June, 1940 | | | | 10.17 | 5.10 | 5.07 |
| July, 1941 | | | | 10.50 | 5.13 | 5.37 |
| Feb., 1948(1) | | | | 11.50 | 5.17 | 6.33 |

(1) Following the reduction in the excise tax on matches to 10 per cent ad valorem in March, 1949 and subsequent changes in selling prices of Eddy matches, the break-down of prices would appear to be approximately as follows:

Jobbers' net cost \$8.16.

Excise and Sales taxes \$1.26.

Manufacturer's net price \$6.90.

It will be seen from the foregoing record that every change made in the manufacturer's price in Eastern Canada has been upward. In some cases the increase has resulted from the maintenance of prices when taxes were reduced, while, in other instances, prices have been increased to a greater extent than the increase in taxes. There have been lengthy periods since Eddy Match commenced business during which established prices remained relatively unchanged. After the 300 box of matches was taken as the standard size of household matches in 1934 there was no change in the manufacturer's price until after the outbreak of war. One exception from the general tendency to move prices only in an upward direction occurred in January, 1930, when some reductions were made in list prices in Western Canada, thus narrowing the differences in prices between East and West.

List prices of matches give only a partial picture of the prices actually realized by the manufacturer. Special discounts and allowances must be taken into account; as well as the sale of "fighting brands" or other matches at prices substantially lower than prices charged for regular brands. Included in the exhibits are a series of statements covering the years 1934 to 1941 inclusive, prepared by Eddy Match to show what is termed the "factory net" on sales. The following table has been drawn up from these statements which bear the title "Sales Cost Analysis". There is a noteworthy contrast between the fluctuations of the average factory net returns and the comparatively stable price situation during the same years reflected in the table above:

TABLE 8. AVERAGE FACTORY NET PER CASE BY AREAS, EDDY MATCH
COMPANY LIMITED, 1934-1941, ALL BRANDS AND SIZES

| Year | Maritimes | Quebec | Ontario | Prairies | British Columbia | All Canada |
|--------------------|-----------|--------|---------|----------|------------------|------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| 1934 | 4.640 | 4.721 | 4.681 | 4.810 | 5.331 | 4.772 |
| 1935 | 4.689 | 4.546 | 4.540 | 4.721 | 5.208 | 4.661 |
| 1936 | 4.678 | 4.691 | 4.572 | 4.744 | 5.191 | 4.714 |
| 1937 | 4.537 | 4.691 | 4.537 | 4.824 | 5.154 | 4.711 |
| 1938 | 4.142 | 4.319 | 4.295 | 4.756 | 5.173 | 4.491 |
| 1939 | 3.859 | 4.216 | 4.283 | 4.731 | 5.174 | 4.415 |
| 1940 | 4.262 | 4.394 | 4.590 | 4.860 | 5.247 | 4.612 |
| 1941 | 5.227 | 5.233 | 5.041 | 5.044 | 5.524 | 5.145 |
| Decrease 1936-1939 | .819 | .475 | .289 | .013 | .017 | .299 |
| Increase 1939-1941 | 1.368 | 1.017 | .758 | .313 | .350 | .730 |

While the analyses do not give a break-down of costs or allow for differences in prices as between cases of large boxes (household matches) and cases of small boxes (pocket matches) the figures they contain may be taken as indicating to some extent differences in costs and differences in the gross profit picture in different sections of the country.

It will be noted that figures for factory net for all Canada move within relatively narrow limits between 1934 and 1937 but that during 1938 and 1939, when active steps were taken to meet Federal Match competition by the sale of special brands and other methods, there is a significant reduction in the average price realized. This becomes more apparent if comparison is made of the factory net figures for different sections of Canada as shown in the above table.

While part of the increase in factory net between 1939 and 1941 would be due to the increases in manufacturer's net prices which were made in June, 1940, and July, 1941⁽¹⁾ the elimination of Federal Match competition in May, 1940 and the subsequent withdrawal of matches which had been sold at less than list prices must have contributed to the increase in factory net. The contrast between the figures in the above table for the Maritimes and Western Canada in this period is striking. It will be recalled that the maintenance of resale price on listed brands had been a consistent policy in Western Canada from 1935 on whereas in the Maritime Provinces there had been a period of open prices in 1939 when one listed brand "Buffalo", had been sold by Eddy Match without restrictions as to quantity, substantially below list price, and reduced prices had been quoted on other lines. In the case of one Halifax customer, E. P. Miller had written on August 8, 1939, that the price of Buffalo matches would be \$8.00 per case "which is 87¢ below our carload price" (Exhibit 244). From May, 1940, until the latter part of 1946, when Western Match began manufacturing, Eddy Match and its associated companies were the only producers of wooden matches in Canada. During the greater part of this period prices of matches, in common with other commodities, could not be increased because of the price ceiling.

2. *Regional Differences in the Prices of Eddy Matches*

The location of wooden match factories in a few centres in Ontario and Quebec has necessarily involved transportation costs in moving matches from the factory to the point of distribution. Since it commenced business Eddy Match has followed a policy of pricing its matches on a regional basis. In the case of the Maritime Provinces, Quebec and the greater part of Ontario the prices established have been uniform prices with freight prepaid. The first price lists for Western Canada, issued on January 3, 1928, quoted prices for Manitoba, Saskatchewan, Alberta and British Columbia f.o.b. factory with freight charges per case added. However, in revised lists dated February 1, 1928, the freight charges were incorporated in the list prices and a different scale of prices was set up for each of the Western provinces in line with the differences in freight charges shown in the first list. In addition to the differences in prices in the lists of January 3, 1928, because of freight charges, there was also a difference in the basic list price of household matches applicable to the two sections of the country although jobbers in both sections, at that time, received the same trade discount of 15 per cent. The following table shows the manner in which prices were quoted in the price list of January 3, 1928 :

(1) In the case of household matches in Eastern Canada the total increase would amount to 12 cents per case up to July, 1941 and 42 cents per case for the balance of the year.

TABLE 9. PRICES OF EDDY MATCHES, EASTERN AND WESTERN CANADA,
AS PER PRICE LIST OF JANUARY 3, 1928

| Maritime Provinces, Ontario Quebec | | Western Provinces | | | | |
|---------------------------------------|---|--|-------------------------------------|-------|-------|------|
| | Jobbers List including Excise Tax | Jobbers List f.o.b. Factory including Excise Tax | Additional Freight Charges per Case | | | |
| | | | Man. | Sask. | Alta. | B.C. |
| #4 size-144 boxes | \$11.91 | \$12.22 | .54 | .69 | .81 | .87 |
| #0 size-720 boxes | 9.00 | 9.00 | .33 | .49 | .55 | .55 |

A comparison of jobber's net cash cost in the various sales territories, after allowing regular discounts, shows that freight prepaid prices per case in Western Canada were higher than in the East by the following approximate amounts :

INCREASED COST TO JOBBERS — WESTERN CANADA

| | Household Size | Pocket Size |
|------------------|----------------|-------------|
| Manitoba | \$0.79 | 32¢ |
| Saskatchewan | 0.94 | 47¢ |
| Alberta | 1.06 | 53¢ |
| British Columbia | 1.12 | 53¢ |

Some of these differences were reduced on January 1, 1930, when the following changes were made in list prices in Western Canada without any changes in prices in the East.

CHANGES IN PRICE PER CASE

| | Household Size | Pocket Size |
|------------------|----------------------|------------------------|
| Manitoba | Reduced 48¢ per case | Reduced 10¢ per case |
| Saskatchewan | " 31¢ " " | " 9¢ " " |
| Alberta | " 17¢ " " | No change |
| British Columbia | " 8¢ " " | Increased 10¢ per case |

There were some further changes in the relationship between prices in Eastern and Western Canada when the 300 box became the standard household size in 1934 and 1935. From that time until 1948, when the Eddy plant at Mission, B.C., came into operation, the differentials between Eastern and Western prices remained relatively unchanged.

Among the items included in the "Sales Cost Analysis" records maintained by Eddy Match, to which reference has already been made, are two described as "Direct Sales Expense" and "Freights". It may be assumed that these two items reflect the direct costs of making sales in different sections of the country. As has already been mentioned the analyses do not give a break-down of costs as between cases of large boxes (household matches) and cases of small boxes (pocket matches) but the figures they contain may be taken as indicating to some extent differences in costs in different sections of the country. The sales cost analysis for the year 1939 (Exhibit 218), which may be taken as an example, contains the following data :

TABLE 10. DIRECT SALES EXPENSE AND FREIGHTS PER CASE, BY AREAS,
EDDY MATCH COMPANY LIMITED, 1939

| | Direct Sales Expense per case | Freights per case | Total Direct Sales Expense and Freights |
|-------------------------|-------------------------------------|----------------------|---|
| Maritime Provinces..... | 12.6¢ | 24.6¢ | 37.2¢ |
| Quebec..... | 9.9¢ | 10.7¢ | 20.6¢ |
| Ontario..... | 10.6¢ | 17.1¢ | 27.7¢ |
| Winnipeg..... | 20.1¢ | 40.2¢ | 60.3¢ |
| Regina..... | 19.4¢ | 35.8¢ | 55.2¢ |
| Saskatoon..... | 19.6¢ | 42.6¢ | 62.2¢ |
| Calgary..... | 20.0¢ | 60.6¢ | 80.6¢ |
| Edmonton..... | 19.9¢ | 50.2¢ | 70.1¢ |
| Vancouver..... | 19.9¢ | 52.1¢ | 72.0¢ |

In the same year, 1939, the differences in net cash cost to jobbers on a freight prepaid basis, taking the prices to jobbers in Eastern Canada as the base prices, were as follows :

INCREASED COST TO JOBBERS — WESTERN CANADA

| | Household Size per case | Pocket Size per case |
|-----------------------|----------------------------|-------------------------|
| Manitoba..... | 38¢ higher | 23¢ higher |
| Saskatchewan..... | 57¢ " | 39¢ " |
| Alberta..... | 77¢ " | 48¢ " |
| British Columbia..... | 92¢ " | 63¢ " |

When Eddy Match established a new scale of prices in 1948 prices in British Columbia, Alberta and Saskatchewan were put on a uniform basis and the following differences over eastern prices then prevailed in Western Canada:

| | Household Size per case | Pocket Size per case |
|---|----------------------------|-------------------------|
| Manitoba..... | 25¢ | 19¢ |
| Saskatchewan } Alberta and } British Columbia } | 44¢ | 35¢ |

It will be noted from the figures given above for 1939 that the differences in prices in Western Canada over the prices charged in Eastern Canada tended to exceed the differences between the recorded costs for direct selling expenses and freights. In the statistical records maintained by Eddy Match the sales realization on shipments to Western Canada generally was higher than that shown for sales in Eastern Canada. These company records group all brands and sizes of matches together in each sales territory and this, in Mr. Miller's opinion, precluded them from being used to show the profitability of sales in various territories. He said, in evidence :

"You have got different sizes of cases; you have a case which has ten gross of boxes in it and one which has five, and we sell some of all. And in these statistics you have there, it gives you all of these thrown into one for an average. It does not give you what you sell the case of Buffalo matches for in Montreal and what you sell it for in British Columbia.

As a matter of fact they use different sized boxes in British Columbia than they do in Quebec. They use a lot of smaller sizes." (Evidence, pp. 230-231)

Information is not available to show the factory net on various types of matches or the sales and distribution costs for the various sizes of cases. In the table given earlier the average factory net per case for all brands and sizes for Canada as a whole in 1939 is shown as \$4.41. According to information furnished by Eddy Match in a written reply the manufacturing cost of a case of "O" size pocket matches in 1939 was \$1.84 at the Pembroke factory and \$2.24 at Berthierville.

3. Valuation of Assets Acquired by Eddy Match

When Eddy Match was organized in 1927, the land, plant, equipment and machinery transferred to it by its predecessors were taken on its books at a total net value of \$3,816,555.23. At the end of the first year's operations, that is on December 31, 1928, Eddy's balance sheet contained the following items under assets :

| | |
|---|----------------|
| Inventories | \$ 971,592.35 |
| Accounts Receivable | |
| (less reserve of \$27,250.09) | 293,807.07 |
| Cash on hand or on deposit | 428,931.89 |
| Deferred Charges | 28,423.62 |
| Land, Buildings, Plant & Equipment (less reserve for depreciation - \$80,589.73) | 3,899,614.44 |
| Patent Rights, Trade Marks & Formulæ | 358,755.48 |
| Goodwill | 2,600,000.00 |
| | <hr/> |
| | \$8,581,124.85 |

(Exhibit 76)

At a later date the Department of National Revenue claimed that the original valuation of properties was too high by \$1,645,370.03 (Exhibit 154). This total was made up of \$790,908.99, which, it was claimed, represented the amount by which depreciable assets transferred to Eddy Match had been written up over the original cost to their previous owners, and \$854,461.04 of accumulated reserves for depreciation which had been on the books of the predecessors and had not been entered on Eddy's books. The details of the various items going to make up the total were given as follows in a letter of April 19, 1937, from Meech, Harmon, Lytle and Blackmore, an American firm of tax consultants :

| " Assets | Alleged Cost to Predecessor | Writeup | As taken on Eddy Match Co. books |
|---------------------------------|-----------------------------------|-----------------------------|--|
| <i>From E. B. Eddy Co. Ltd.</i> | | | |
| Equipment (Hull) | 281,157.89 | 718,842.11 | 1,000,000.00 |
| Bldgs. (Deseronto) | 74,815.23 | 184.77 | 75,000.00 |
| <i>From Canadian Match Co.</i> | | | |
| Equipment | 331,922.97 | 71,882.11 | 403,805.08 |
| | <hr/> 687,896.09 | <hr/> 790,908.99 | <hr/> 1,478,805.08 |
| <i>Deprec. Reserve</i> | | | |
| | On Books Predecessor | Amount Estimated | As taken on Eddy Match Co. books |
| <i>From World Match Co.</i> | | | |
| Bldgs. | 229,841.40 | 229,841.40 | None |
| Equip. | 352,647.98 | 352,647.98 | None |
| Dwellings | 825.00 | 825.00 | None |
| <i>From E. B. Eddy Co. Ltd.</i> | | | |
| Equip. (Hull) | 271,146.66 | 271,146.66 | None |
| | <hr/> 854,461.04 | <hr/> 854,461.04 | |
| Total | | <hr/> <u>\$1,645,370.03</u> | |

The Canadian tax authorities claim that Eddy Match Co. Ltd. has unduly enhanced its net worth for tax purposes, by \$1,645,370.03 made up of :

| | |
|---|------------------------|
| Write up depreciable assets | \$ 790,908.99 |
| Omission of accumulated Reserves against those assets on Dec. 31, 1927 | 854,461.04 |
| | <hr/> |
| | <u>\$1,645,370.03"</u> |

(Exhibit 154)

This claim by the income tax authorities was eventually settled in 1938 by Eddy Match in effect revaluing its assets for taxation purposes by a downward revision totalling \$842,100.17. Of this adjustment H. Hart wrote to W. W. Howe, Diamond Match, on May 6, 1938 :

"...It is a well known and obvious fact that these assets were over valued — or watered — as of January 1, 1928..." (Exhibit 93)

There can be no doubt that when Ivar Kreuger negotiated in 1927 for the purchase of the match business of the E. B. Eddy Co. that he and his colleagues had already appraised the possibilities of profit should they be able to establish a monopoly position in the Canadian market. This being the case, and in view of the further fact that substantial financial commitments had already been made, they were prepared to offer substantial financial inducements to the outside holders of tangible and intangible assets in order to secure complete control.

The two main interests that were in the best position to bargain as to the terms on which they would transfer their rights were the E. B. Eddy Company and the Diamond Match Company. Insofar as the E. B. Eddy Company was concerned, it transferred to the new company equipment at Hull which it carried on its books at a gross value of \$281,157.89 and at a depreciated value of \$10,011.23. In addition to this it transferred certain inventories, priced at \$328,000, and buildings and real estate at Deseronto which were carried on the books of the subsidiary, Dominion Match Co. at a depreciated value of \$77,518.97 but which were shown by the E. B. Eddy Co. as an investment of \$50,000 in that subsidiary. The total gross value of these assets as shown by the E. B. Eddy books was \$659,157.89. The assets for which the new company paid included not only these properties but also the goodwill of the E. B. Eddy Company as related to its match business and an undertaking not to manufacture or sell matches in Canada for the ten years from January 1, 1928, or otherwise engage in the match business except with the written consent of the Eddy Match Company. The transaction was complete when Eddy Match turned over to E. B. Eddy Co. its entire issue of 30,000 six per cent cumulative preferred shares of \$100 each, 9,600 common shares of no par value and \$28,000 in cash. The negotiations relating to the division of the remaining common shares between Bryant & May and Diamond Match have been described in Chapter II of this report.

At the end of 1928 the balance sheet of Eddy Match, as already indicated, showed as assets a total of almost \$3,000,000, made up of goodwill valued at \$2,600,000 and \$358,755 for patent rights, trade marks and formulae. W. A. Fairburn described the establishment of these figures as follows in a letter of January 18, 1944, to H. Hart :

"Again, the item of Patents, Rights, Trade Marks, Formulae and Good Will, aggregating over three million dollars, is nothing but plain 'water', and is not worthy of even being called an intangible asset, for it represents merely the difference between high values placed on certain tangible assets and the total sum of money paid to acquire the property."

(Exhibit 140)

The buildings at Berthierville which were taken over by Eddy Match from World Match were given a value of \$1,574,248.33 (Exhibit 280) on Eddy's books. This was the highest valuation of any of the tangible assets acquired by the new company but, at the same time, the figure represented the amount at which they had been carried on the books of World Match, apart from the reserve for depreciation referred to above. It was of the buildings at Berthierville that W. A. Fairburn wrote in the same letter of January 18, 1944 :

"The Plant Account is outrageously high considering manufacturing facilities and the cost in normal times of duplicating the manufacturing capacity. As far as their utilization is concerned, the Berthierville buildings, showing at around \$968,000 after depreciation, stand out like a sore thumb, for in the ultimate this plant is more of a liability than an asset and I would like to see three-quarters of a million dollars taken off this one capital asset."

... Personally, I would like to see a big slash made in the Good Will item, but possibly it might, in the end, be better to consider reducing the book value of the Berthierville buildings, which we well know to be far too high as far as our manufacturing operations are concerned, with due regard to the possibility that the company may be compelled by severe competition at sometime or other to put up the best possible economic unit to manufacture matches cheaply in the Dominion and junk or salvage the Berthierville investment. This, of course, is looking well into the future, for nothing can be done in time of war and probably nothing of so radical a nature would be done unless we were compelled by competition to do so." (Exhibit 140)

Mr. Hart in his evidence said of the Berthierville plant :

"It was built not as a match factory in the first place, and it was always much too large and much too expensive a type of building for the housing of match equipment. However, when we did acquire it, practically the first year was spent, on rehabilitation of that plant. The production in '28, most of '28, out of Berthierville was very, very small indeed; but the whole plant was revamped, the equipment was revamped and laid out to produce as efficient an operation as possible in the building; and today I feel perfectly safe in saying that the Berthierville plant is one of the best laid out and best operated plants in existence.

It was an expensive building. That is what Mr. Fairburn always was worrying about; the fact that it was an expensive building at Berthierville." (Evidence, pp. 302-303)

The financial statements of Eddy Match for 1928 and 1929 show additions to plant and equipment amounting to more than \$364,000. When it is recalled that the reported cost to either Canadian Match Company or E. B. Eddy Company of all their match making machinery transferred to Eddy Match was less than this amount, some idea is gained of the extent to which it was considered necessary, in Mr. Hart's words, to revamp the highly valued equipment which had been acquired.

In spite of what W. A. Fairburn described as the "over-capitalization" of Eddy, the company has a record of substantial earnings in relation to this capitalization since the first year of its operations. Its position was described in the following terms by W. A. Fairburn in a letter of December 7, 1943, to Sir Clarence E. Bartholomew of Bryant & May :

"The Eddy Company is in a position today where it could not possibly meet severe, competent and intelligently handled competition; it has been protected in its operations and has shown good earnings and paid big dividends..." (Exhibit 140)

Table 11 gives certain information as to the financial results of the company's operations for the period 1928 to 1947 inclusive. A column has been inserted to show the relative volume of sales based on information furnished by Eddy Match as to the quantities of wooden and book matches sold in each year. The quantity figures must be regarded as approximations as there are differences in quantities of matches per case depending upon the type of match. Also, in recent years, book matches have constituted a larger proportion of Eddy sales than was the case in the first years of its operations. The figures relate to Eddy Match Company Limited only and do not include the operations of subsidiary companies except to the extent that their payment of dividends contributed to the earnings of Eddy Match.

TABLE 11. SALES, NET PROFIT AND DIVIDEND PAYMENTS, EDDY MATCH COMPANY LIMITED, 1928-1947

| Year Ended Dec. 31 | Net Sales Including Excise Tax | No. of Cases of Matches Sold (Approx.) | Deprecia- tion charged | Net Profit before Income & Excess Pro- fits Taxes (1) | Net Profit after allow- ances for Taxes except refundable portion (1) | Dividends paid on Preferred Stock | Dividends paid on Common Stock |
|--------------------------|--------------------------------------|---|------------------------------|---|--|--|---|
| 1928..... | \$ 3,042,466 | 340,771 | \$ 78,263 | \$ 485,872 | \$ 445,872 | \$ 180,000 | \$ — |
| 1929..... | 4,543,895 | 497,060 | 152,096 | 677,173 | 622,173 | 180,000 | 360,000 |
| 1930..... | 4,100,822 | 462,968 | 160,404 | 782,561 | 721,561 | 180,000 | 360,000 |
| 1931..... | 3,809,094 | 441,393 | 162,260 | 709,524 | 636,524 | 180,000 | 360,000 |
| 1932..... | 3,331,505 | 391,483 | 163,132 | 636,917 | 563,317 | 180,000 | 360,000 |
| 1933..... | 3,292,720 | 369,883 | 161,134 | 736,793 | 644,293 | 180,000 | 360,000 |
| 1934..... | 3,098,751 | 363,146 | 161,032 | 756,738 | 652,238 | 180,000 | 360,000 |
| 1935..... | 3,139,198 | 383,507 | 162,934 | 768,749 | 653,170 | 180,000 | 360,000 |
| 1936..... | 3,145,738 | 390,496 | 163,922 | 815,977 | 652,081 | 180,000 | 420,000 |
| 1937..... | 3,159,590 | 391,406 | 164,466 | 816,959 | 668,982 | 180,000 | 420,000 |
| 1938..... | 3,023,558 | 383,694 | 164,767 | 656,316 | 546,908 | 180,000 | 360,000 |
| 1939..... | 3,150,283 | 404,409 | 137,154 | 709,262 | 583,308 | 180,000 | 360,000 |
| 1940..... | 3,605,186 | 433,209 | 83,436 | 867,223 | 558,948 | 180,000 | 360,000 |
| 1941..... | 4,241,791 | 447,841 | 191,155 | 1,034,215 | 571,205 | 180,000 | 360,000 |
| 1942..... | 4,978,578 | 524,265 | 90,000 | 1,322,805 | 680,719 | 180,000 | 360,000 |
| 1943..... | 5,316,982 | 547,317 | 61,265 | 1,440,294 | 656,106 | 180,000 | 360,000 |
| 1944..... | 5,311,089 | 546,715 | 59,395 | 1,421,116 | 672,851 | 180,000 | 360,000 |
| 1945..... | 5,881,074 | 600,607 | 58,957 | 1,463,139 | 665,725 | 180,000 | 360,000 |
| 1946..... | 6,402,918 | 651,407 | 58,987 | 1,412,334 | 763,783 | 180,000 | 360,000 |
| 1947..... | 6,072,415 | 614,191 | 111,425 | 928,672 | 568,672 | 180,000 | 360,000 |
| Total..... | \$82,647,653 | 9,185,768 | \$2,546,084 | \$18,442,639 | \$12,528,436 ⁽²⁾ | \$3,600,000 | \$6,960,000 |

(1) As reported in the company's profit and loss statements, including investment income.

(2) Appropriations from earned surplus to the net amount of \$135,160, in the years 1931 to 1946 inclusive, to cover adjustments re Federal and Provincial income taxes, depreciation, and special inventory reserve reduce the total net profit after taxes for the 20 years, as shown above, to \$12,393,276.

This table shows that since 1928 the earnings of Eddy Match have always been more than sufficient to pay dividends of \$3.00 per share on its common stock and \$6.00 per share on its preferred stock. Earnings, in fact, have been sufficient over the period to permit substantial changes in the nature of the capitalization of the company. By December, 1946, earnings had been appropriated to reduce the assigned value of goodwill by \$700,000. As of September 30, 1946, equipment at the Berthierville and Pembroke plants was carried on the books at a total value of \$86,525.26. In giving information on this and other points to W. A. Fairburn in a letter of November 5, 1946, H. Hart wrote :

"It is notable that all of the equipment which was on the books prior to 31st December 1939 has now been written off as fully depreciated. This included the Hull equipment set up at such a high value in 1928. The only really large asset which still reflects the 1928 set up is of course the Berthierville building." (Exhibit 156)

The financial results of the merging of the match businesses in 1927 were described in the following terms by Eddy Match in 1937 in a brief submitted to the income tax authorities at the time when the valuation of depreciable assets was under review :

"As it happened, the judgment of the officers of the two companies [Diamond and Bryant & May] who formulated the plan and participated in its execution, was validated by subsequent happenings. The previous large losses of the old companies were immediately converted into substantial profits..."

Dividends on the preference shares were paid continuously; dividends on the ordinary shares of \$3.00 per share (120,000 shares) were paid from 1929 on; justifying the valuation of approximately \$40.00 per share placed thereon by the directors in 1928. Remembering that the period of which we are speaking spanned the worst depression in modern times, and succeeded upon a history of large losses in prosperous times it is patent that results so striking could not have been accomplished without a drastic change in the ownership and operation of the assets involved..." (Exhibit 73)

The sales figures shown in the table above include the excise taxes which constitute a substantial part of the total in each year. A comparative statement prepared by Eddy Match for the period 1942 to 1946 inclusive shows the ratio of earnings to sales after deducting the amount of excise taxes :

TABLE 12. EARNINGS OF EDDY MATCH COMPANY LIMITED
AS A PERCENTAGE OF SALES, 1942-1946

| | 1946 | 1945 | 1944 | 1943 | 1942 |
|---|-------------|-------------|-------------|-------------|-------------|
| Sales, including Excise Taxes | \$6,402,918 | \$5,881,074 | \$5,311,089 | \$5,316,982 | \$4,978,578 |
| Sales, excluding Excise Taxes | 3,708,059 | 3,519,669 | 3,167,153 | 3,139,150 | 2,938,313 |
| <i>I. Earnings as a percentage of sales, excluding Excise Taxes</i> | % | % | % | % | % |
| A - before charging depreciation and inventory reserves and taxes | 40.1 | 43.3 | 47.4 | 48.2 | 48.7 |
| B - after charging depreciation and inventory reserves and taxes | 20.6 | 18.9 | 21.2 | 20.9 | 21.8 |
| <i>II. On basis of earnings excluding investment income</i> | | | | | |
| A - before charging depreciation and inventory reserves and taxes | 36.4 | 40.1 | 43.5 | 45.3 | 46.1 |
| B - after charging depreciation and inventory reserves and taxes | 17.7 | 16.7 | 18.4 | 19.0 | 20.0 |

(Based on Exhibit 115. Earnings figures for 1942 in this exhibit appear to have been revised from the figures given in the annual profit and loss statement for that year.)

A comparison of the balance sheet of Eddy Match as of December 31, 1947, with those of January 1, 1928 and December 31, 1928 shows the substantial changes which the management had been able to effect in the intervening years.

TABLE 13. ASSETS OF EDDY MATCH COMPANY LIMITED AS AT JANUARY 1, 1928,
DECEMBER 31, 1928 AND DECEMBER 31, 1947

| | December 31, 1947 | December 31, 1928 | January 1, 1928 |
|--|----------------------|----------------------|--------------------|
| <i>Current Assets</i> | | | |
| Cash on hand, in bank, or call loan | \$ 443,022.09 | \$ 428,931.89 | \$ 66,761.47 |
| Dominion of Canada bonds, at cost | 1,308,550.00 | — — | — — |
| Accounts receivable (less reserve) (a) | 316,102.13 | 293,807.07 | 712,058.15 |
| Inventories, less reserves (b) | 1,142,847.26 | 971,592.35 | 799,605.36 |
| Total, current assets | \$3,210,521.48 | \$1,694,331.31 | \$1,578,424.98 |
| <i>Investment in subsidiary Company</i> | | | |
| (Shares at cost, less amounts written off) | \$ 745,400.00 | — — | — — |
| <i>Properties</i> | | | |
| Land, buildings, plant and equipment | \$3,348,657.32* | \$3,980,204.17 | \$3,824,206.14 |
| Less depreciation reserve | 1,370,080.74 | 80,589.73 | 7,650.91 |
| | \$1,978,576.58 | \$3,899,614.44 | \$3,816,555.23 |
| (*Values placed on properties acquired as at 1st January, 1928, with subsequent additions at cost, less fully depreciated plant and equipment, \$2,171,970.93 which have been written out of the asset and reserve accounts) | | | |
| Patent Rights, Trademarks and Formulae | \$ 401,447.50 | \$ 358,755.48 | \$ 358,755.48 |
| Goodwill, less amount written off | 1,900,000.00 | 2,600,000.00 | — — |
| Prepaid taxes, unexpired insurance, etc. | 26,123.69 | 28,423.62 | 8,419.65 |
| Refundable portion E.P.T. | 345,500.68 | — — | — — |
| Total Assets | \$8,607,569.93 | \$8,581,124.85 | \$5,762,155.34 |

(a) Reserves on Jan. 1, 1928, \$23,650.09, on Dec. 31, 1928, \$27,250.09, on December 31, 1947, \$10,000.00.

(b) Special inventory reserve in 1947, \$167,636.98.

TABLE 14. LIABILITIES OF EDDY MATCH COMPANY LIMITED AS AT JANUARY 1,
1928, DECEMBER 31, 1928 AND DECEMBER 31, 1947

| | December 31, 1947 | December 31, 1928 | January 1, 1928 |
|---|-----------------------|-----------------------|-----------------------|
| <i>Current Liabilities</i> | | | |
| Excise and Sales Taxes | \$ 175,763.54 | \$ 108,901.08 | \$ 125,442.00 |
| Accounts payable and accrued charges | 274,860.99 | 76,351.66 | 59,027.10 |
| Notes payable and interest | | | 175,297.94 |
| Provision for Income and Excess Profits taxes | 135,228.62 | 40,000.00 | |
| Dividend on preferred stock | | 90,000.00 | |
| Total, current liabilities | <u>\$ 585,853.15</u> | <u>\$ 315,252.74</u> | <u>\$ 359,767.04</u> |
| Contingent Reserve | | | 2,433.30 |
| <i>Capital and Earned Surplus</i> | | | |
| Capital | | | |
| Authorized and issued, 30,000 shares 6% cumulative redeemable preferred, par value \$100. | 3,000,000.00 | 3,000,000.00 | 3,000,000.00 |
| 120,000 common shares n.p.v. | 4,157,899.83 | 5,000,000.00 | 2,399,955.00 |
| Earned Surplus | 863,816.95 | 265,872.11 | — |
| Total Liabilities | <u>\$8,607,569.93</u> | <u>\$8,581,124.85</u> | <u>\$5,762,155.34</u> |

Note : Appropriations from earned surplus (1928-1947) over and above dividend payments and income tax and depreciation adjustments were :—

| | |
|--|-------------------|
| Extraordinary expenses — 1932 | \$ 159,644 |
| Amount written off investment in subsidiary — 1937 | 109,815 |
| Reduction in book value of goodwill — 1944-45-46 | 700,000 |
| | <u>\$ 969,459</u> |

4. *Commonwealth Match Company Limited*

It will be recalled that the issued securities of Commonwealth Match consisted originally of :

| | | | |
|--------|---|---|-----------|
| 1,000 | 7% cumulative preferred shares, par value \$100 | — | \$100,000 |
| 10,000 | Common shares, no par value | — | 24,000 |
| | 20-year, 1st mortgage 6% bonds | — | 300,000 |

There were also 3,500 shares of deferred stock of no par value issued originally to H. I. Lundquist of New York or his nominees in payment for machinery valued at \$7,000. These shares were later donated to and held in trust for Commonwealth Match. In Commonwealth's first annual financial statement the common stock was valued at \$19,000, following a write-down in the value of inventories purchased from Falkirk Company Limited, and has since been shown at this figure.

In 1934, with the consent of the bondholders, the rate of bond interest was reduced to 5 per cent and the sinking fund provision in the trust agreement was waived. Dividends were first paid in 1937 and continuously from 1939 on. The payments on common stock have been substantial in relation to the value which the shares have been given on the books of the company. As mentioned earlier, no significant expansion in production was made by Commonwealth Match during the war years, but net profits were maintained at a level which closely approximated the amounts required to meet the bond interest and the rate of dividends in effect at the outbreak of war. Table 15 gives figures for the volume of business and financial results of the operations of Commonwealth Match for the period 1933 to 1947 inclusive.

5. *Acquisition of Commonwealth Match by Valcourt*

Reference has been made in earlier sections of this report to the common part played in the management of Commonwealth Match by officials of Diamond and Eddy Match. Up to 1946, however, Eddy had no formal control of Commonwealth and the financial interest in the company was held 70 per cent by Bryant & May and 30 per cent by Universal Match. In the latter part of 1946 and early in 1947, however, negotiations were conducted for the purchase of all the securities of Commonwealth Match by Valcourt.

On February 4, 1947, Valcourt accepted offers from Universal Match and Bryant & May to sell their interests in Commonwealth, the effective dates of the transactions being December 28, 1946, and March 17, 1947, respectively. With the completion of these transactions Commonwealth became a wholly-owned subsidiary of Valcourt, the cost to Valcourt being \$430,575, made up as follows :

Purchase from Bryant & May:

| | |
|--|-----------|
| \$210,000 five per cent 20 year First Mortgage Bonds at par | \$210,000 |
| 700 Shares seven per cent Cumulative Preferred Shares at \$100 | 70,000 |
| 7,000 Shares No Par Value Common Stock at \$. | 35,000 |
| | <hr/> |
| | \$315,000 |

Purchase from Universal Match:

| | |
|---|-----------|
| \$90,000 five per cent 20 year First Mortgage Bonds | |
| 300 Shares seven per cent Cumulative Preferred Shares | |
| 3,000 Shares No Par Value Common Stock | |
| at an "agreed upon" price as per offer of sale | |
| negotiated by the late C. A. Harmon of Meech, Harmon, | |
| Lytle and Blackmore, Public Accountants and Tax Con- | |
| sultants of Buffalo, New York | 115,575 |
| | <hr/> |
| | \$430,575 |

TABLE 15. SALES, NET PROFIT AND DIVIDEND AND BOND INTEREST PAYMENTS, COMMONWEALTH MATCH CO. LTD., 1933-1947

| Year Ended Dec. 31 | Sales in- cluding Excise & Sales Taxes | No. of Cases of Matches Sold | Net Increase in Depre- ciation Reserves | Net Profit before In- come & Ex- cess Profits Taxes and before Bond Interest (1) | Net Profit after Allow- ances for Taxes except refundable portion but before Bond Interest (1) | Dividends Paid on Preferred Stock | Dividends Paid on Common Stock | Bond Interest Paid |
|--------------------------|---|---------------------------------------|---|--|---|--|---|--------------------------|
| 1933 ⁽²⁾ | \$ 291,219 | 27,770 | \$ 5,388 | \$ 25,383 | \$ 24,383 | \$ — | \$ — | \$ 18,000 |
| 1934 | 374,074 | 40,220 | 10,808 | 22,831 | 22,791 | — | — | 16,500 |
| 1935 | 371,375 | 43,160 | 11,079 | 22,150 | 21,784 | — | — | 15,000 |
| 1936 | 468,844 | 54,070 | 18,710 | 29,945 | 27,004 | — | — | 15,000 |
| 1937 | 474,082 | 54,097 | 18,735 | 37,468 | 32,418 | 35,000 | 10,000 | 15,000 |
| 1938 | 457,595 | 55,044 | 18,797 | 47,759 | 42,100 | — | — | 15,000 |
| 1939 | 452,326 | 56,694 | 18,796 | 45,899 | 40,492 | 8,750 | 15,000 | 15,000 |
| 1940 | 453,984 | 51,488 | 18,922 | 47,708 | 36,440 | 12,250 | 15,000 | 15,000 |
| 1941 | 472,110 | 45,482 | 19,050 | 56,203 | 37,662 | 7,000 | 14,000 | 15,000 |
| 1942 | 497,164 | 46,645 | 17,319 | 55,412 | 37,818 | 7,000 | 15,000 | 15,000 |
| 1943 | 521,891 | 48,996 | 19,049 | 64,172 | 37,472 | 7,000 | 15,000 | 15,000 |
| 1944 | 535,173 | 50,267 | 17,541 | 63,708 | 37,332 | 7,000 | 15,000 | 15,000 |
| 1945 | 540,251 | 50,790 | 12,441 | 59,405 | 36,488 | 7,000 | 15,000 | 15,000 |
| 1946 | 548,131 | 51,620 | 8,528 | 54,664 | 37,166 | 7,000 | 15,000 | 15,000 |
| 1947 | 488,000 ⁽³⁾ | 46,132 | 22,058 | 34,276 | 27,144 | 7,000 | 15,000 | 15,000 |
| Total | \$6,946,219 | 722,475 | \$237,221 | \$666,983 | \$498,494 | \$105,000 | \$144,000 | \$229,500 |

(1) As reported in the company's profit and loss statements.

(2) Covering period from date of incorporation, November, 1932.

(3) Amount of sales tax estimated.

Of the purchase price, \$430,000 was presumably furnished by Eddy Match, as by resolution of the Board of Directors of Valcourt on February 3, 1947, Eddy Match was allotted 4,300 shares of Valcourt.

It was apparently decided, about this time, to dispense, for the most part, with nominee shareholders so far as Eddy's interest in Valcourt was concerned. By resolution of the Board of Directors of Valcourt on February 4, 1947, 3,151 shares of Valcourt capital stock were transferred from Eddy's three nominees to Eddy, leaving the nominees with one share each. These steps to make Commonwealth a subsidiary of Eddy Match were apparently taken to place the management of the company on the same basis as already existed in the case of Canada Match and Federal Match. ⁽¹⁾

6. Canada Match Company Limited

The authorized capital stock of Canada Match since its inception has been 2,000 shares of common stock of a par value of \$100 per share. The number of shares issued and outstanding at the end of each fiscal year have been as follows:

| | |
|-------------------------------|------------|
| Year ended January 31, 1932 — | 509 shares |
| " " " 1933 — | 541 " |
| " " " 1934 — | 620 " |
| " " " 1935 — | 834 " |
| " " " 1936 — | 1,039 " |
| " " " 1937 — | 1,039 " |
| " " " 1938 on — | 1,539 " |

It has already been pointed out that the total cost to Eddy Match of the 1,039 shares of Canada Match was \$213,715.31. However, the amount by which this exceeded the par value of \$103,900 of outstanding shares was written off by Eddy Match in December, 1937. On assuming control of Canada Match in 1936 Eddy had advanced \$50,000 as working capital which was subsequently covered by the issue of 500 shares of the common stock of Canada Match.

Table 16, prepared from the evidence and from financial statements submitted by Canada Match, gives a picture of that company's operations both before and after control was bought by Eddy Match.

7. Federal Match Limited

The authorized capital stock of Federal Match Limited on incorporation consisted of 1,000 common shares of a par value of \$100 per share. The shares outstanding each year while the company was under independent ownership were as follows :

| | |
|---------------------|------------|
| December 31, 1936 — | 330 shares |
| " 1937 — | 371 " |
| " 1938 — | 411 " |
| " 1939 — | 416 " |
| May 10, 1940 — | 455 " |

(1) The following announcement was published in *Canadian Grocer* of April 1, 1949 :

"Eddy Match Co. Ltd., with sales offices here, announces amalgamation of Commonwealth Match Co. and Canada Match Co., under latter company name.

Eddy Match Co. has owned the Commonwealth Match Co. for over a year and has controlled the Canada Match Co., since 1936. With this latest move the Commonwealth Co., with plant at St. Johns, Que., will be closed. Commonwealth brand matches will be continued but manufactured and sold by the Canada Match Co., with plant at Hull, P.Q. Both sales offices have been put under one head and Wm. Rennick formerly of the Commonwealth Co., is general manager of the combined sales offices.

Reason for the amalgamation of the two companies is because production in both was small and elimination of one company will simplify distribution and centre production." [as corrected in issue of July 15, 1949].

As has already been related, the 455 shares outstanding on May 10, 1940, were acquired on behalf of Eddy Match for \$136,500 or \$300 per share. An advance of \$25,000 was made to Federal Match for working capital after its acquisition. By supplementary letters patent, issued November 13, 1940, the authorized capital stock of Federal Match was converted from 1,000 common shares of a par value of \$100 a share to 1,000 common shares without par value, and increased to 2,000 shares. Federal Match then capitalized its earned surplus in the amount of \$42,000 and set up an item of \$49,000 for goodwill, a total of \$91,000, and declared a stock dividend in this amount. The old shares were withdrawn and new stock in the amount of 1,615 shares was issued with a value of \$161,500. This covered the cost of \$136,500 for the old shares and the advance for working capital of \$25,000. In 1943, goodwill in the amount of \$49,000 was written off by a deduction from surplus. Figures relating to the operations of Federal Match since 1940 are given in table 17.

The financial results of the match companies in Canada controlled by Bryant & May and Diamond have been substantial in terms of profits since the elimination of competing companies by the merger in the Eddy Match Company. High values placed on physical properties or on intangible assets have not prevented the earning of substantial returns on such values. Such earnings have permitted the payment of large dividends as well as the accumulation of considerable surpluses. In the case of subsidiary companies such results have been produced with a volume of production lower than when the companies operated under independent ownership.

TABLE 16. SALES, NET PROFIT, DIVIDEND PAYMENTS AND VALUE OF CAPITAL AND SURPLUS, CANADA MATCH CO. LTD., 1932-1947

| Fiscal Year Ended | Sales Including Excise and Sales Taxes | No. of Cases of Matches Sold | Depreciation charged | Depreciation Reserve | Net Profit before Income & Excess Profits Taxes (1) | Net Profit after allowances for Taxes except refundable portion | Dividends Paid on Common Stock | Value of Capital and Surplus |
|---|--|------------------------------|----------------------|----------------------|---|---|--------------------------------|------------------------------|
| Jan. 31, 1932 ⁽²⁾ | \$ 119,763 | 13,301 | \$ 1,411 | \$ 1,411 | \$ 1,879 | \$ — | \$ — | \$ 49,021 |
| 1933 | 347,340 | 39,246 ⁽³⁾ | 2,416 | 3,827 | 8,260 | — | — | 60,481 |
| 1934 | 324,210 | 36,621 ⁽³⁾ | 5,432 | 12,164 | 18,957 | — | — | 82,589 |
| 1935 | 456,582 | (not available) | 7,357 | 19,521 | 12,316 | — | 13,400 | 100,361 |
| 1936 | 538,929 | 68,093 | 7,516 | 27,038 | 8,743 | — | — | 123,982 |
| | \$ 1,786,824 | | \$24,132 | \$27,038 | \$ 46,397 | \$ 33,482 ⁽⁴⁾ | \$ 13,400 | \$123,982 |
| <i>After Assumption of Control by Eddy Match Co. Ltd.</i> | | | | | | | | |
| Dec. 31, 1936 ⁽⁵⁾ | \$ 301,785 | 36,306 | \$ 7,154 | \$34,191 | \$ 15,852 | \$ 13,078 | \$ — | \$135,717 |
| 1937 | 383,104 | 50,728 | 7,804 | 40,577 | 40,435 | 33,359 | — | 169,076 |
| 1938 | 363,632 | 51,768 | 7,804 | 48,381 | 24,514 | 20,224 | 1,154 | 238,146 |
| 1939 | 365,503 | 54,256 | 7,804 | 56,185 | 26,085 | 21,520 | 32,704 | 226,962 |
| 1940 | 335,735 | 44,455 | 7,157 | 63,342 | 33,014 | 21,459 | 20,665 | 227,756 |
| 1941 | 302,967 | 32,523 | 2,824 | 66,166 | 41,761 | 22,969 | 20,007 | 230,718 |
| 1942 | 313,005 | 32,749 | 2,717 | 68,682 | 48,532 | 26,926 | 20,776 | 238,955 |
| 1943 | 315,112 | 32,965 | 2,717 | 71,599 | 48,912 | 24,651 | 22,315 | 241,291 |
| 1944 | 315,662 | 32,965 | 2,792 | 74,390 | 53,593 | 25,587 | 22,315 | 244,563 |
| 1945 | 319,631 | 33,383 | 2,815 | 76,790 | 50,003 | 25,018 | 22,315 | 247,265 |
| 1946 | 333,870 | 34,867 | 2,846 | 78,376 | 48,908 | 27,005 | 46,170 ⁽⁶⁾ | 230,328 |
| 1947 | 331,645 ⁽⁷⁾ | 32,067 | 2,846 | 81,222 | 26,716 | 16,741 | 15,390 | 231,396 |
| | \$3,981,651 | 469,032 | \$57,280 | \$81,222 | \$458,325 | \$278,537 ⁽⁸⁾ | \$223,811 | \$231,396 |

(1) As reported in the company's profit and loss statements.

(2) 9 months ended Jan. 31, 1932.

(3) Quantity made.

(4) Net profit for five years to January 31, 1936, after adjustments to a net amount of \$12,915 for income taxes, depreciation and bad debt reserves and organization expense.

(5) 11 months ended Dec. 31, 1936.

(6) Dividend declared on current and previous year's profits.

(7) Amount of sales tax estimated.

(8) Because of adjustments for bad debt reserves and income tax (1936-1947) made through surplus account, the total net profit after taxes as shown, was increased to \$281,227.

TABLE 17. SALES, NET PROFIT, DIVIDEND PAYMENTS AND VALUE OF CAPITAL AND SURPLUS, FEDERAL MATCH LIMITED 1940-1947

| Fiscal Year Ended | Sales Including Excise and Sales Taxes | No. of Cases of Matches Sold | Depreciation Charged | Depreciation Reserve | Net Profit before Income & Excess Profits Taxes (1) | Net Profit after allowances for taxes and depletion (1) | Dividends Paid on Common Stock | Value of Capital and Surplus |
|---|--|------------------------------|----------------------|----------------------|---|---|--------------------------------|------------------------------|
| | \$510,616(2) | 67,677(2) | — | \$17,894(3) | — | \$ 48,234(4) | \$ 4,137(4) | \$ 87,823(3) |
| <i>After Assumption of Control by Eddy Match Co. Ltd.</i> | | | | | | | | |
| Dec. 31 | | | | | | | | |
| 1940(5) | \$ 239,305 | 29,687 | \$4,907 | \$21,334 | \$ 15,975 | \$ 10,384 | \$ | \$170,801(6) |
| 1941 | 265,252 | 28,451 | 5,335 | 26,670 | 28,260 | 15,543 | | 186,266 |
| 1942 | 256,594 | 26,753 | 5,335 | 31,901 | 29,183 | 16,077 | | 203,756 |
| 1943 | 280,142 | 29,232 | 5,335 | 37,236 | 33,359 | 15,339 | | 170,095(7) |
| 1944 | 294,697 | 30,797 | 5,335 | 42,571 | 38,269 | 16,485 | 7,671 | 178,908 |
| 1945 | 299,659 | 31,306 | 5,335 | 47,906 | 34,007 | 18,349 | 10,498 | 186,759 |
| 1946 | 316,269 | 33,014 | 3,260 | 51,172 | 32,517 | 18,864 | 26,648(8) | 182,719 |
| 1947 | 303,731(9) | 29,370 | (not stated) | 49,964 | 19,203 | 12,098 | 12,112 | 182,704 |
| | \$2,255,649 | 238,580 | | \$49,964 | \$230,773 | \$123,139(10) | \$56,929 | \$182,704 |

(1) As reported in the company's profit and loss statements.

(2) Fiscal year ended Jan. 31, 1940.

(3) As at May 10, 1940.

(4) Period, Sept. 1936 to Jan. 31, 1940.

(5) Eleven months ended Dec. 31, 1940.

(6) In 1940 earned surplus, goodwill and an advance from Eddy Match for working capital were capitalized in the amounts of \$42,000, \$49,000 and \$25,000 respectively.

(7) Goodwill of \$49,000 written off in 1943.

(8) Dividend declared and paid on current and previous year's profits.

(9) Amount of sales tax estimated.

(10) Income Tax adjustments to the net amount of \$4,859 (1940-1946), reflected in the surplus account, increase the total net profit after taxes, as shown for the eight years, to \$127,998.

XII. CONCLUSION

The record of events disclosed in the investigation and summarized in this report is essentially the story of successful efforts of an international cartel to establish a monopoly of the wooden match industry in Canada and to prevent, as far as possible, the resurgence of any competition. Before the original merger of competing producers in Eddy Match Company, Limited in 1927, there was a period of very sharp competition as rival foreign groups sought to secure positions in the Canadian market against the long-established domestic manufacturer. In this period, competition in price extended to the principal lines of the rival manufacturers and there was a general lowering of the price of matches. Once monopoly had been achieved through the merging of the competing businesses, prices were substantially increased. When competition re-appeared, as new businesses were started, it did not last long because the new productive facilities were soon brought under the same control as Eddy Match. Moreover, it was competition of a limited nature. Eddy Match took steps to induce wholesalers to restrict sales of competitive lines and to keep the prices of them to retailers in line with the prices of Eddy matches. When these independent manufacturers quoted lower prices Eddy Match generally met their competition, not by lowering the price of its standard products, but by introducing special brands, sometimes called "fighting brands", at reduced prices. They were sold only in the areas affected by the new competition, and only in limited quantities and for limited periods.

At the same time involved efforts were made to cloak the real situation in the wooden match industry in Canada and to conceal the inter-relationships between the Canadian companies controlled by Bryant & May and Diamond. These efforts included not only complex corporate arrangements but also repeated directions to officials to conceal instructions which might reveal the actual state of affairs. Commonwealth Match was maintained for years as a separate operating company with no direct financial relationship to Eddy Match and with the outward appearance of an independent competitor until this investigation was begun. Shortly thereafter it became in fact a subsidiary of Eddy Match and more recently, the manufacture of matches at the Commonwealth plant in St. Johns, P.Q. was given up.

The Combines Investigation Act defines a merger, trust or monopoly in the following terms :

"'Merger, trust or monopoly' means one or more persons

- (a) who has or have purchased, leased or otherwise acquired any control over or interest in the whole or part of the business of another; or
- (b) who either substantially or completely control, throughout any particular area or district in Canada or throughout Canada the class or species of business in which he is or they are engaged;

and extends and applies to the business of manufacturing, producing, transporting, purchasing, supplying, storing or dealing in commodities which may be the subject of trade or commerce :"

(Section 2 (4))

Such a merger, trust or monopoly is declared to be an unlawful "combine" if it "has operated or is likely to operate to the detriment or against the interest of the public, whether consumers, producers or others."

Eddy Match Company Limited, in acquiring competing match plants and in its control of the wooden match industry, unquestionably constitutes a "merger, trust or monopoly" as defined in both sections of the above definition. In this investigation the effect of these acquisitions and the form and purpose of the "merger, trust or monopoly" have been reviewed with a view of determining whether it is a combine within the meaning of the Combines Investigation Act.

The record shows how a series of independent companies have established themselves in the market, have been affected by various practices which have made it difficult for them to continue, and in the end their factories have been acquired by Eddy Match. In one case, the plant was bought before the company got into commercial production; in another case, that of Columbia Match, the assets were acquired after the company went into bankruptcy.

A third acquisition was the Canada Match company, which was incorporated in 1931. Despite the difficulties which it encountered in seeking to secure outlets for its products, it continued to operate as an independent company. In 1934, Eddy Match made an abortive attempt to acquire control of the company by the purchase of shares from individual shareholders. In 1936 it succeeded in purchasing all the remaining issued stock of Canada Match and began to operate the company as a subsidiary. By this acquisition all the factories then producing wooden matches in Canada were under the control of the same group.

This complete control was again broken, shortly afterwards, by the formation of the Federal Match company, which began to produce matches later in 1936. The policies pursued by Eddy Match in dealing with this competition were substantially the same as those followed earlier with Canada Match. In meeting this situation the sales policies of Eddy Match and Commonwealth Match appear to have been more closely correlated. In addition, the brands of the newly acquired Canada Match company were used, along with Eddy's own fighting brands, in particular areas where Federal competition was active, without altering the higher prices of the regular Eddy brands. A very careful watch was kept on Federal's activities and the close proximity of the plants of Canada Match and Federal Match in Hull, P. Q. facilitated efforts to determine Federal's rate of production and the nature and destination of its shipments. Such information, as well as that secured through sales representatives and other channels, was available to Eddy Match in making plans to combat the competition of the smaller company.

The market control exercised by Eddy Match undoubtedly increased the difficulties of Federal Match as a new entrant to the match industry. Nevertheless Federal continued to operate and to provide competition within the limits of its relatively small production. At the same time Eddy Match continued its efforts to limit Federal sales with the object of eliminating it as a competitor and in the end attained this object by buying its shares at an inflated price. The transaction was completed in May, 1940 and Federal Match has since been operated as a subsidiary of Eddy Match.

This acquisition again put Bryant & May and Diamond Match in complete control of the wooden match industry in Canada. Their control continued undisturbed until 1945, except for sporadic imports from the United States which Eddy Match closely checked and sought to restrict. In 1945 Western Match was organized and announced its intention to manufacture matches in British Columbia. Eddy Match immediately took active steps to deal with the possible disturbance to its monopoly position. Arrangements were made for construction of a branch plant at Mission, B.C. Its shipments of matches to Western Canada were substantially increased, even before Western Match actually began production. E. P. Miller wrote in regard to these shipments :

"We hope these large sales are going to protect us against competition which we expect will be in the market before long, and about the only way I know to protect ourselves against competition taking business is to load the market, and that is what we hope these large sales are doing." (Exhibit 270)

When Western Match commenced operations in 1946, it faced conditions of a "loaded" market in the West, unusually heavy supplies having been sold in the Western market by Eddy Match. The system of preferential discounts which Eddy Match had established, as well as its programme of resale price maintenance in Western Canada, further narrowed the opportunities of the new company. Western Match as an independent company had a very brief existence. It was acquired by Eddy Match in 1949 after the new company continued to experience difficulties in maintaining operations.

The elimination of competition by conditions approaching that of monopoly has been most seriously regarded by Canadian courts in interpreting legislation forbidding undue restraints of trade. In a leading decision by the Supreme Court of Canada, Mr. Justice Duff (later Chief Justice) said :

"... I have no hesitation in holding that as a rule an agreement having for one of its direct and governing objects the establishment of a virtual monopoly in the trade in an important article of commerce throughout a considerable extent of territory by suppressing competition in that trade, comes under the ban of the enactment." (1)

While Mr. Justice Duff was then referring to section 498 of the Criminal Code, it is clear that similar considerations would apply under the Combines Investigation Act.

In a more recent case, the Quebec Court of Appeal held :

"However, the creation of a monopoly is a different thing from a combination to prevent or simply lessen competition unduly." (2)

The court was then distinguishing between agreements which did not establish a complete monopoly but which did unduly lessen competition. It is this latter type of agreement which has been typical in cases involving undue restraint of trade. It is obvious therefore, that if the public interest is prejudicially affected by agreements which lessen competition unduly, the detriment in this respect is increased when the lessening of competition is accomplished through the formation of a monopoly which achieves complete control of the market and whose governing object has been to eliminate competition and to prevent its reappearance through the entrance of independent companies.

An agreement represents a less permanent form of control. It may have the effect of reconciling conflicting viewpoints of the various members, but competitive conditions may be restored at any time if one or more of the parties decide to abandon the arrangement. By acquiring ownership of formerly competing plants the corporate monopoly can establish one policy with respect to management and price for the entire organization. Monopoly achieved through corporate control

(1) Weidman v. Shragge (1912) 46 S.C.R. 1 at page 37.

(2) St. Germain, J. in Rex v. Canadian Import Co. et al (1935) 3 D.L.R. 330 at page 349.

represents a much more rigid and perpetuating form of market control. Not only is competition eliminated among the hitherto independent enterprises, but the resulting corporate monopoly is usually of such size, capacity and financial strength as to make it extremely difficult or perhaps impossible for a new firm to enter the market or to continue for long as an independent competitor.

One method which Eddy Match adopted to control the trade in its own interests was the fixing of minimum prices at which wholesale distributors were to resell Eddy matches. This policy was first adopted in 1934 during the period when Canada Match still had an independent existence, and was effective on certain Eddy brands sold in Ontario, Quebec and the Maritime Provinces. This arrangement was apparently short-lived, but it was followed by more comprehensive and lasting arrangements in early 1935 in the Maritimes and Western Canada, which were designed, in part at least, to make difficulties for Eddy Match's independent competitor. These arrangements and the methods used in keeping them in effect are described in Chapters VI and VIII of this report.

The policy of fixing resale prices by the Eddy Match company has certain aspects which make it even more serious than in most other cases. Wherever the practice is followed by one of several manufacturers of the same general class of goods, the effect is to eliminate price competition amongst the distributors in the sale of that manufacturer's product. If the same commodity is available from competing manufacturers, a measure of protection to the public may remain. Where there is a monopoly, as there is in the wooden match industry, even this protection disappears. In these circumstances the public has no alternative but to pay whatever price the monopoly imposes if it wishes this particular class of goods.

Even during the period when Eddy Match did not completely control the market it has endeavoured in its own interests to impose a policy of resale price maintenance with respect to sales of matches in large areas of Canada. To this end it has sought to induce wholesalers to refrain from handling competing lines unless the rival manufacturers agreed to name resale prices, and, in some cases, unless they fixed their resale prices at or near those set for Eddy products. Eddy Match frequently threatened to suspend its own resale price policy if jobbers continued to sell the goods of its competitors at prices below the fixed resale prices established for Eddy matches.

It is clear from the record that the present monopoly position of the Eddy Match Company has been achieved through the deliberate policy of the interests which control it to dominate the Canadian market. It is not a case of monopoly having been thrust upon it through the circumstance that all other entrants withdrew through lack of efficiency or enterprise and left the field to one survivor. Each new company had a problem, of course, in introducing new and unknown brands to compete with long-established brands, and in matching its limited financial strength with that of a company which not only had the financial resources gained through monopoly control but had behind it the enormous financial resources of its principals in other countries. New entrants have sought at different times since 1927 to establish themselves in an industry which was unusually profitable. While all met difficulties in seeking to become established, two of them found it profitable to continue in business even when selling at prices considerably below those maintained by Eddy Match on its principal lines.

Eddy Match sought by various means to protect itself from the competition of these independent producers, competition which threatened its high financial returns. The Canadian monopoly "has been protected in its operation", as W. A. Fairburn of Diamond Match wrote to Sir Clarence Bartholomew of Bryant & May in December,

1943, "and has shown good earnings and paid big dividends". The scale on which earnings have been made and dividends paid over the years since the merger in 1927 is shown by the financial information given in preceding chapters. Valuations placed on the assets acquired by Eddy Match have been admittedly very high. Those who have been in the best position to judge have described them in certain large aspects as "over valued". Some of this inflated value is to be found in the item "goodwill", which Mr. W. A. Fairburn described as nothing but "plain 'water' . . . the difference between high values placed on certain tangible assets and the total sum of money paid to acquire the property". In any event the record is a consistent one of substantial profits from the first year of operation.

In Chapter X reference has been made to substantial payments by Eddy Match and associated companies to the Diamond group in the United States. It is contended on behalf of Eddy Match that these payments covered a variety of services and materials all of which originally could not have been obtained with equal advantage in any other way. In a competitive industry, where elements of cost are closely scrutinized and kept in check to enable a company to meet the competition of the more efficient producers, question as to payments made by an individual manufacturer for particular supplies or services would be unlikely to arise. Where competition is absent, as in the case of any monopoly, and where, as in this case, the payments are made to a group of companies under common financial control, other considerations become applicable. Some of the payments made by Eddy Match, such as the purchases of certain Canadian-made materials through the Uniform Chemical Products Incorporated of New York, had no apparent justification at the time of the inquiry. Other payments are recorded in the books of Eddy Match in such a summary way that no adequate basis is provided for appraisal and the Canadian officers could not explain the details of the charges. Manufacturing costs charged against the production of matches in Canada are borne by Canadian consumers and any increases in such costs which are not necessary in efficient operations aggravate the situation under monopoly control, particularly where such control is exercised by companies outside Canada.

Customs duties have played an important part in protecting the match industry from foreign competition. Where competition is not effective within the country, either through the establishment of a monopoly or through price agreements, it is of importance to the public that alternative supplies should be available from foreign sources. Whatever the customs tariff, international cartel arrangements may do much to prevent their importation. It is not to be expected, in the match industry, that the world's largest manufacturers, which control the Canadian companies, would encourage shipments into the Canadian market. Importations from independent manufacturers outside Canada would assist, however, in providing the Canadian public with alternative sources of supply which would serve as a competitive check and public safeguard in the matter of quality as well as price. Until recently one check on the importation of matches has been the cost of affixing excise stamps to the packages. This difficulty has been removed, however, by the change made in 1949 from specific excise taxes on matches to an ad valorem tax. The present rates of customs duty stand, however, at $17\frac{1}{2}$, 20 and 25 per cent on wooden matches, and $17\frac{1}{2}$, 25 and 35 per cent on book or paper matches. In view of the non-competitive nature of the wooden match industry in Canada, consideration should now be given to the rates of customs duty with the view of ensuring that the customs tariff does not operate to exclude competition from outside the country.

In a competitive industry comprising a substantial number of producers of similar size, some of the methods used by Eddy Match in dealing with the competition of independent firms might have no special significance. When, however, monopoly power is possessed by one firm or by several firms under the same ownership and

management control, the methods used to maintain that monopoly and to deal with competition of outside firms take on much greater significance. In the match industry such methods as fighting brands, low prices in specific areas, confidential discounts and rebates have been employed with the definite objective of preventing the growth of new and independent producers. Through the establishment of a system of resale price maintenance, competition in price among wholesalers of matches in wide areas has been eliminated. In addition, active steps were taken by representatives of Eddy Match in a number of instances to secure the observance of minimum retail prices where active competition at this level seemed likely to develop. The use of monopoly power in all these ways clearly removes conditions of free competition from the industry and limits freedom of opportunity to all except those who could challenge that power with equal strength. In this industry, the power which one corporation has deliberately acquired has been actively exercised to limit independent competition when it has developed and to establish monopolistic practices throughout a large part of the trade in matches.

It is my opinion that the evidence which has been summarized in this report justifies the conclusion that Eddy Match Company, Limited, as a merger, trust or monopoly, is a combine within the meaning of the Combines Investigation Act, and that Commonwealth Match Co. Ltd., Canada Match Co. Ltd., Federal Match Limited, and Valcourt Company Ltd. have been party or privy to or have knowingly assisted in the formation and operation of the said combine in the manufacture, distribution and sale of wooden matches in Canada.

F. A. McGREGOR,
Commissioner,
Combines Investigation Act.

Ottawa,
December 27, 1949.

APPENDICES

CANADA MATCH CO. LTD.

ASSETS

| | | | |
|--|----|---------------|---------------|
| Current Assets | | | |
| Cash on Hand and in Bank | \$ | 9,757 | |
| Notes and Accounts Receivable | \$ | 63,665 | |
| Less: Reserve for Bad Debts | | <u>6,367</u> | |
| Inventories — Raw Materials and Finished Goods | | | 57,298 |
| | | | <u>54,302</u> |
| | | | \$121,357 |
| Fixed Assets | | | |
| Land | \$ | 700 | |
| Buildings | | | 52,202 |
| Less: Reserve for Depreciation | \$ | <u>57,510</u> | |
| | | | 5,308 |
| Machinery | \$ | <u>62,105</u> | |
| Less: Reserve for Depreciation | | | <u>21,298</u> |
| | | | 40,807 |
| Furniture, Fixtures and Office Equipment | \$ | <u>1,556</u> | |
| Less: Reserve for Depreciation | | | <u>431</u> |
| | | | 1,125 |
| | | | <u>94,834</u> |
| Deferred Charges | | | |
| Insurance Prepaid | \$ | 421 | |
| Taxes Prepaid | | | 372 |
| Fuel | | | 136 |
| Stationery and Supplies | | | <u>1,010</u> |

Current Liabilities

| | |
|-----------------------------------|-----------|
| Bills and Accounts Payable | \$ 21,512 |
| Department of National Revenue | 17,466 |
| Quebec Compensation Board | 1,200 |
| Special Accommodation | 50,000 |
| Accrued Wages and Salaries | 2,489 |
| Accrued Interest | 82 |
| Provision for Income Tax Purposes | 1,399 |
| Total and Surplus | <hr/> |
| Capital Stock — | |
| Authorized \$200,000 | |
| Issued and Paid up | \$103,900 |
| Earned Surplus | 20,082 |

94,834

123,982

1,939

\$218.130

\$218,130

: 130

CANADA MATCH CO. LTD.

Balance Sheet as at December 31, 1947

| ASSETS | | LIABILITIES | |
|--|-----------|-----------------------------------|-----------|
| Current Assets | | Current Liabilities | |
| Cash on Hand and in Bank | \$ 30,880 | Accounts Payable | \$ 4,137 |
| Accounts Receivable | \$ 24,375 | Excise and Sales Taxes Payable | 13,721 |
| Less : Reserve for Bad Debts | 2,383 | Accrued Payroll | 781 |
| Interest Receivable | | Provision for Income Tax Purposes | 4,453 |
| Inventories — | | | \$ 23,092 |
| Finished Goods | \$ 37,464 | | |
| Raw Materials and Supplies | 30,228 | Capital and Surplus | |
| Investments — | | Capital Stock — | |
| Dom. of Canada Bonds | 80,446 | Authorized — \$200,000 | \$153,900 |
| | \$201,616 | Issued and Paid up | 77,496 |
| | | Earned Surplus | 231,396 |
| Fixed Assets | | | |
| Land | \$ 700 | | |
| Buildings | \$ 57,510 | | |
| Less : Reserve for Depreciation | 21,182 | | |
| Machinery and Tools | \$ 62,525 | | |
| Less : Reserve for Depreciation | 58,357 | | |
| Furniture, Fixtures and Office Equipment | \$ 2,201 | | |
| Less : Reserve for Depreciation | 1,682 | | |
| | 41,715 | | |
| Other Assets | | | |
| Refundable Portion of Excess Profits Tax | 9,124 | | |
| Deferred Charges | | | |
| Freight Prepaid | \$ 397 | | |
| Insurance Prepaid | 720 | | |
| Taxes Prepaid | 916 | | |
| | 2,033 | | |
| | \$254,488 | | \$254,488 |

LIABILITIES

Balance Sheet as at May 10, 1940

[illegible]

APPENDIX IV

FEDERAL MATCH LIMITED

Balance Sheet as at December 31, 1947

LIABILITIES

ASSETS

Current Assets

Cash on Hand and in Bank \$65,334
Accounts Receivable \$20,666
Less : Reserve for Bad Debts 953

Interest Receivable 420

Inventories —
Finished Goods \$11,001
Raw Materials, Work in Process & Supplies 24,475

Investments — Dom. of Canada
Bonds 39,000

Fixed Assets

Land \$1,869
Buildings 25,717
Less : Reserve for Depreciation 10,128
Machinery and Tools \$41,610
Less : Reserve for Depreciation 39,405

Office Furniture and Fixtures \$ 75
Less : Reserve for Depreciation 431

Other Assets

Refundable Portion of Excess Profits Tax 29,866

Deferred Charges

Taxes Prepaid \$ 566
Insurance Prepaid 1,532
Fuel 507

Current Liabilities

Accounts Payable \$ 597
Accrued Salaries and Wages 571
Excise and Sales Taxes Payable 12,699
Provision for Income Taxes 967

Capital and Surplus

Capital Stock —
Authorized — 2000 Common Shares at \$100 each \$161,500
Issued and Paid up 21,204
Earned Surplus

133

182,704

\$ 14,834

2,605

\$197,538

\$197,538

APPENDIX V

COMMONWEALTH MATCH CO. LTD.

Balance Sheet as at December 31, 1947

LIABILITIES

ASSETS

Current Assets

| | |
|------------------------------|-----------|
| Cash on Hand and in Bank | \$ 44,667 |
| Accounts Receivable | 3,914 |
| Less : Reserve for Bad Debts | |
| Accrued Interest on Bonds | \$ 54,065 |
| Inventories : Finished Goods | 2,221 |
| Work in Process | 35,660 |
| Raw Materials | |
| Investments — Dom. of Canada | |
| Bonds | |

Fixed Assets

| | |
|---------------------------------|-----------|
| Land | \$159,106 |
| Buildings | 69,265 |
| Less : Reserve for Depreciation | |
| Machinery and Equipment | \$193,689 |
| Less : Reserve for Depreciation | 167,957 |

Other Assets

| | |
|--|--|
| Patents, Rights, Trade Marks, etc. | |
| Refundable Portion of Excess Profits Tax | |

Deferred Charges

| | |
|-------------------|--|
| Insurance Prepaid | |
| Fuel and Supplies | |

Current Liabilities

| | |
|--|----------|
| Accounts Payable and Accrued Charges | \$ 8,031 |
| Bond Interest Due Jan. 1, 1948 | 7,500 |
| Dom. & Provincial Income Taxes Payable | 3,407 |
| Other Taxes Payable | 13,306 |

Fixed Liabilities

| | |
|----------------------------------|---------|
| First Mortgage 5% Bonds Due 1953 | 300,000 |
| Reserve for Contingencies | 5,000 |

Capital and Surplus

| | |
|--|-----------|
| Capital Stock — Authorized — | |
| 2,500 Shares 7% Cumulative Preferred Stock of \$100 each (redeemable at Company's option at \$110) | |
| 25,000 Shares Common Stock of No Par Value | |
| Issued and Fully Paid | \$100,000 |
| 1,000 Shares Preferred | 19,000 |
| 10,000 Shares Common | |
| Earned Surplus | |

126,405

16,534

\$463,649

\$463,649

Government
Publications

